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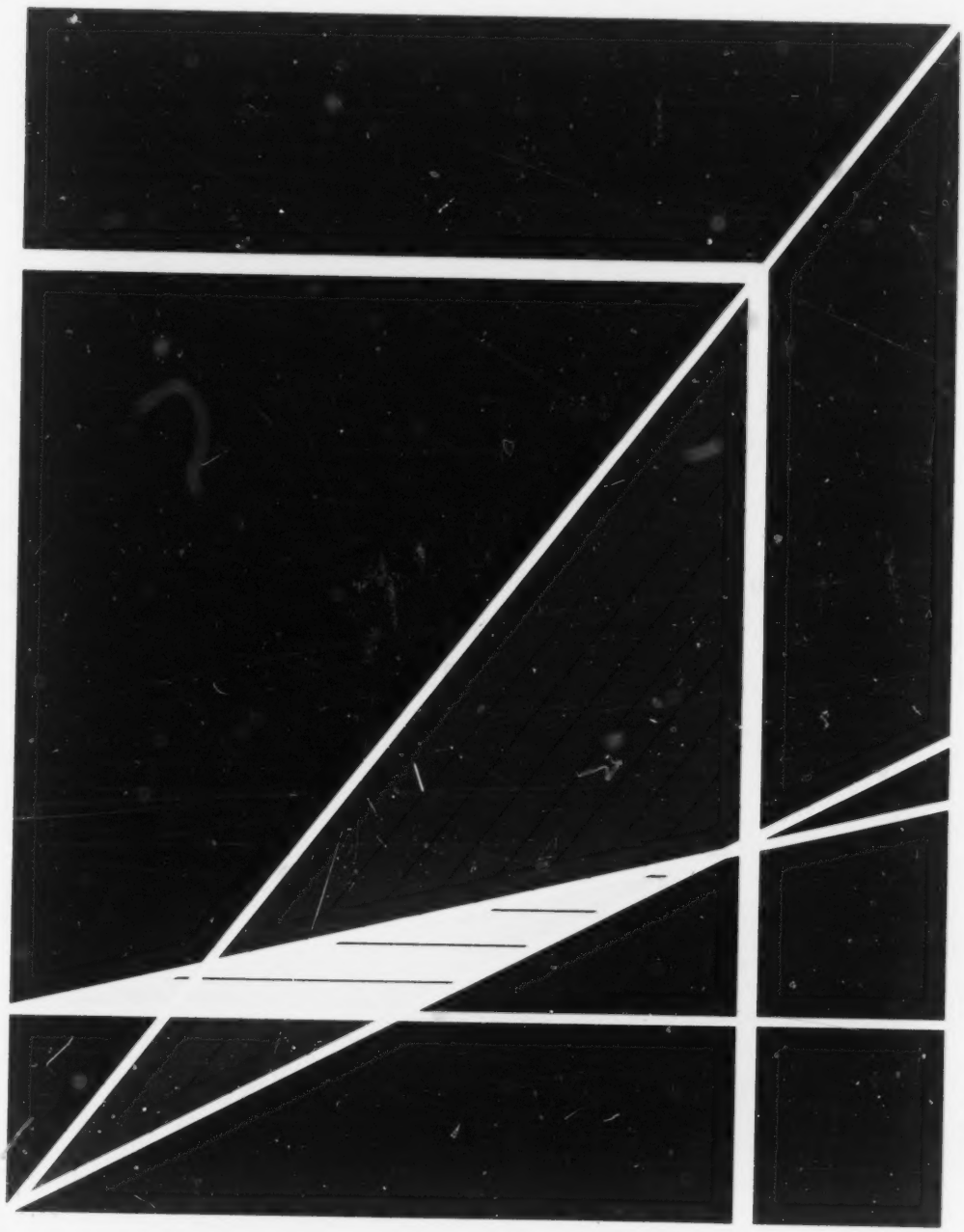
The Lilly Digest '80



A summary of the 1979 operations of 1,458 community pharmacies
The most comprehensive report of community pharmacy operations available

Published annually in September of the following year as a service to community pharmacy in the interest of sound management

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Foreword

The LILLY DIGEST is published annually as a service to the profession of pharmacy. The primary intent is to provide community pharmacy practitioners with a meaningful data base that will assist them in making productive management decisions. The LILLY DIGEST contains information that represents current operating statistics of a reliable cross section of independent community pharmacies throughout the United States.

The 48th edition of the LILLY DIGEST is a compilation of voluntarily submitted operating figures from 1,458 independent pharmacies. Each participant received a personalized analysis of his operating data, with constructive suggestions for improvement when appropriate. In addition to those who submitted data for this edition, thousands of other pharmacists benefit by comparing their operating figures with the summaries of data of similar pharmacies contained in the LILLY DIGEST. Furthermore, these data offer students of pharmacy reliable indicators of the challenges and opportunities in the practice of community pharmacy.

The "Heart of the LILLY DIGEST" (pages 23 through 35) comprises 28 summaries of 1979 operating figures arranged according to total sales volume and daily prescription activity. For comparative purposes, a manager can readily isolate the summary that is most similar to his own.

Eli Lilly and Company is pleased to present this service to all who are interested in independent community pharmacy and would like to express its appreciation to those who took the time to submit their operating data, for it is they who are responsible for this latest edition.

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Community Pharmacy Operations—1979

During 1979, total sales continued to improve in the community pharmacies that reported their operating statistics to the LILLY DIGEST (Table 1). The growth rate was 13.4 percent, dramatically higher than the annual growth rate of 7.7 percent noted over the past decade. Although total sales showed a favorable increase, the cost of goods sold rose at an even faster rate and thereby forced the gross margin down to a ten-year low of 34.3 percent of sales. Total expenses dropped slightly percentagewise during 1979. However, even though proprietor's or manager's salary as a percent of sales declined to a greater degree, the result was that net profit before taxes fell to a new low of 3.0 percent of sales.

An average sales volume of $391,681 was posted by community pharmacies—an increase of 13.4 percent over the 1978 figure. This growth rate is significantly higher than the 7.0 percent one-year growth rate recorded during 1978. As shown in Table 2, prescription sales volume improved over the previous year. However, its growth rate was outpaced by a larger increase in other sales, both in dollars and in percent of sales. Total prescription revenue accounted for just under half of the community pharmacy's total sales volume at 49.8 percent (down from 51.2 percent in 1978).This is the first time in over 20 years that the percentage of prescription sales to total sales has declined. Even so, the importance of the professional area to the average community pharmacy cannot be overemphasized, for it is this service that distinguishes pharmacies from all other kinds of retail operations.

Again in 1979, the higher cost of goods sold—up 0.4 percent as a share of sales—was of particular significance, since it was the major contributing factor to the reduction in net profit percentage. In fact, the increase in cost of goods sold (to 65.7 percent) resulted in the lowest gross margin level since 1955.

Managers usually attempt to offset a rising cost of goods sold by reducing total expenditures or by raising selling prices so that net profit before taxes may remain stable. However, even though proprietor's salary declined from 6.9 to 6.5 percent of sales, employees' wages and rent rose 0.3 and 0.1 percent respectively, eliminating most economies that might be realized in the expense category. Price increases were evidently restrained, probably because of the competitive environment. Since these efforts were unable to neutralize the reduction in gross margin, net profit dropped during 1979.

Rent, as a percent of sales, rose slightly to 2.5 percent (up from 2.4 percent reported for 1978).

Miscellaneous operating expenses (including all expenses other than proprietor's or manager's salary, employees' wages, and rent) declined to 10.4 percent, although each item within this expense category increased dollarwise in comparison with the 1978 figures.

Net profit before taxes showed a dollar increase of $148, which represented a 1.3 percent increase over the 1978 figure for the average DIGEST pharmacy. When expressed as a percent of sales, it fell to 3.0 percent—down from 3.3 percent for 1978. The decline in both net profit and proprietor's salary caused total income for the proprietor to drop substantially as a percent of total sales, from 10.2 percent in 1978 to 9.5 percent in 1979, even though, dollarwise, total income rose to just under $37,000 before taxes.

Prescription revenue for the average LILLY DIGEST pharmacy was greater dollarwise but fell slightly as a percent of total sales when compared with the 1978 percentage. The higher revenue for 1979 resulted from a 1.0 percent increase in the number of prescriptions dispensed, accompanied by a rise of 61 cents in the average prescription charge, from $6.57 to $7.18.

The upward trend in new prescriptions as a percentage of the total dispensed continued during 1979 and more than offset the decline in renewed prescriptions, with the result that the number of prescriptions dispensed reached a new record high of 27,187.

Management's continuing challenge will be to exercise effective control over costs and inventory while recognizing the persisting importance of the professional area of the operation by taking appropriate measures to ensure this department's continuing contribution to the overall business.

Total inventory dollars increased again, as in previous years; however, inventory expressed as a percentage of sales slipped from 16.5 to 16.4 percent. This relationship resulted in greater sales productivity per inventory dollar. Both the prescription department and other sales contributed to the greater productivity. Prescription revenue per prescription inventory dollar rose from $8.36 to $8.51, whereas other sales per inventory dollar increased from $4.71 to $4.78.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1979 1,458 Pharmacies	1978 1,556 Pharmacies	Amount and Percent of Change
Total sales	$391,681—100.0%	$345,302—100.0%	+ $46,379—13.4%
Cost of goods sold	257,334— 65.7%	225,651— 65.3%	+ $31,683—14.0%
Gross margin	$134,347— 34.3%	$119,651— 34.7%	+ $14,696—12.3%
Expenses			
Proprietor's or manager's salary	$ 25,346— 6.5%	$ 23,896— 6.9%	+ $ 1,450— 6.1%
Employees' wages	46,759— 11.9%	39,914— 11.6%	+ $ 6,845—17.1%
Rent	9,783— 2.5%	8,436— 2.4%	+ $ 1,347—16.0%
Heat, light, and power	3,291— 0.8%	3,024— 0.9%	+ $ 267— 8.8%
Accounting, legal, and other professional fees	1,804— 0.5%	1,518— 0.5%	+ $ 286—18.8%
Taxes (except on buildings, income, and profit) and licenses	5,848— 1.5%	5,132— 1.5%	+ $ 716—14.0%
Insurance (except on buildings)	4,214— 1.1%	3,747— 1.1%	+ $ 467—12.5%
Interest paid	2,584— 0.7%	2,160— 0.6%	+ $ 424—19.6%
Repairs	1,344— 0.4%	1,091— 0.3%	+ $ 253—23.2%
Delivery	1,662— 0.4%	1,502— 0.4%	+ $ 160—10.6%
Advertising	4,436— 1.1%	4,004— 1.2%	+ $ 432—10.8%
Depreciation (except on buildings)	3,369— 0.9%	3,028— 0.9%	+ $ 341—11.3%
Bad debts charged off	565— 0.1%	482— 0.1%	+ $ 83—17.2%
Telephone	1,365— 0.3%	1,280— 0.4%	+ $ 85— 6.6%
Miscellaneous	10,362— 2.6%	8,970— 2.6%	+ $ 1,392—15.5%
	10.4%	10.5%	
Total expenses	$122,732— 31.3%	$108,184— 31.4%	+ $14,548—13.4%
Net profit (before taxes)	$ 11,615— 3.0%	$ 11,467— 3.3%	+ $ 148— 1.3%
Total income of self-employed proprietor (before taxes on income and profits)	$ 36,961— 9.5%	$ 35,363— 10.2%	+ $ 1,598— 4.5%
Value of inventory at cost	$ 64,066— 16.4%	$ 56,942— 16.5%	+ $ 7,124—12.5%
Annual rate of turnover of inventory	4.2 times	4.1 times	
Hours per week pharmacy was open	64	65	— 1

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription size which appear in one of the 28 arrangements in the "Heart of the LILLY DIGEST."

Table 2 *Current trends in prescription department operations*

Averages per Pharmacy	1979 1,458 Pharmacies	1978 1,556 Pharmacies	Amount and Percent of Change
Sales			
Prescription	$195,159— 49.8%	$176,705— 51.2%	+ $18,454—10.4%
Other	196,522— 50.2%	168,597— 48.8%	+ $27,925—16.6%
Total	$391,681—100.0%	$345,302—100.0%	+ $46,379—13.4%
Value of inventory at cost and as a percent of sales			
Prescription	$ 22,941— 11.8%	$ 21,133— 12.0%	+ $ 1,808— 8.6%
Other	41,125— 20.9%	35,809— 21.2%	+ $ 5,316—14.8%
Total	$ 64,066— 16.4%	$ 56,942— 16.5%	+ $ 7,124—12.5%
Sales per dollar invested in inventory			
Prescription	$8.51	$8.36	+ $ 0.15— 1.8%
Other	4.78	4.71	+ $ 0.07— 1.5%
Size of area (square feet)*			
Prescription	381— 14.7%	378— 15.3%	+ 3— 0.8%
Other	2,205— 85.3%	2,092— 84.7%	+ 113— 5.4%
Total	2,586—100.0%	2,470—100.0%	+ 116— 4.7%
Sales per square foot*			
Prescription	$510.56	$466.52	+ $ 44.04— 9.4%
Other	88.23	81.43	+ $ 6.80— 8.4%
Total	150.39	140.36	+ $ 10.03— 7.1%
Number of prescriptions dispensed			
New	13,499— 49.7%	13,017— 48.4%	+ 482— 3.7%
Renewed	13,688— 50.3%	13,896— 51.6%	— 208— 1.5%
Total	27,187—100.0%	26,913—100.0%	+ 274— 1.0%
Prescription charge	$7.18	$6.57	+ $ 0.61— 9.3%

*Based on averages of pharmacies that reported all data

Sales and Expenses

The major objective of pharmacy management is to maximize sales. Although generating sales is critical, of equal importance is the need for management to control operating and merchandise costs so that an adequate net profit and return on investment will be realized. Efficiency in all operating areas should be an integral part of any sales program. The success of any business venture cannot be measured only by increases in sales volume.

The LILLY DIGEST figures are adjusted to exclude refunds, returns, and allowances to customers. Sales and excise taxes are also deducted, and the cost of goods sold includes freight-in but is reduced by supplier discounts.

There is a significant variability in sales volume levels and operating statistics among different types of pharmacies. For this reason, consideration should be given to the type of operation under examination when the data are used for comparative purposes. For example, a small medical building pharmacy would be distinctly different from a large shopping center unit in most respects.

Major operating statistics differ in relation to total sales volume, as Chart 1 and Table 3 indicate. As demonstrated in previous years, gross margin and total expenses tend to decline percentagewise when total sales increase. As a percent of sales, net profit shrinks somewhat at higher sales volumes even though total expenses decline.

Chart 1 indicates the large share of total expenses that the total wage package represents. Proprietor's salary declines percentagewise as total sales rise, whereas employees' wages tend to exhibit the opposite phenomenon. Since the total wage package has a substantial impact on total expenses and, therefore, on net profit, management should try to gear wage expense to greater productivity from all employees, with the aim of increasing output per personnel hour. It is worthy of mention that many economists believe failure to increase productivity is a major, long-term contribution to inflation.

Gross Margin—The gross margin decreases as a percentage of sales when total sales volume rises. This relationship may be associated with the ratio of prescription sales to total sales, since Table 3 shows how gross margin declines when the ratio of prescription sales to sales volume drops. Pharmacies with total sales under $100,000 reported prescription revenue of 70.8 percent of total sales and a gross margin of 38.0 percent. Pharmacies that had sales volume over $750,000 posted prescription activity amounting to 34.4 percent of sales and a gross margin of 31.1 percent. Since the larger-sales-size stores reported lower gross margin, obviously a greater amount of their sales volume was derived from lower-margin departments than in prescription-oriented pharmacies.

Expenses—Since many expenses incurred by a pharmacy are of a fixed nature, total expenses appear high as a percent of sales when the sales volume is below $100,000, as in a newly opened pharmacy. As sales increase, however, this percentage declines rapidly. In Table 3, total expenses decline from 38.5 percent of sales for volume under $100,000 to 28.8 percent for sales over $750,000.

Salary and Wages—As mentioned earlier, the total wage package constitutes a substantial portion of the wage expense figure and has a major impact on net profit. The proprietor's salary went up dollarwise from $12,870 in stores with sales under $100,000 to $39,451 in those with sales in excess of $750,000. However, when expressed as a percentage of sales, this expense item declined from 16.1 to 3.5 percent. Employees' wages show the opposite trend; they ranged from 5.3 percent in the lowest-volume pharmacies to 13.2 percent in stores reporting sales over $750,000. The percentage increase in this item may be associated with the larger staff, especially professional personnel, needed to operate a pharmacy with a large volume of business that remains open longer hours per week.

Miscellaneous Operating Costs—The 12 expense items summarized in this category (Table 3, in braces) range from 12.5 to 9.8 percent of sales. These values are relatively constant and show no definite trend, but careful control of each expense item must be maintained to insure acceptable profitability.

Rent—Percentagewise, rent remains constant as sales volume rises. Rent may appear high as a percent of sales in newer pharmacies because of a fixed rental charge when full sales potential has not yet been reached. Individual variations also may depend on size and location of the store. A comprehensive discussion of rent may be found on pages 42 and 43.

Chart 1 *Selected operating statistics according to sales volume*

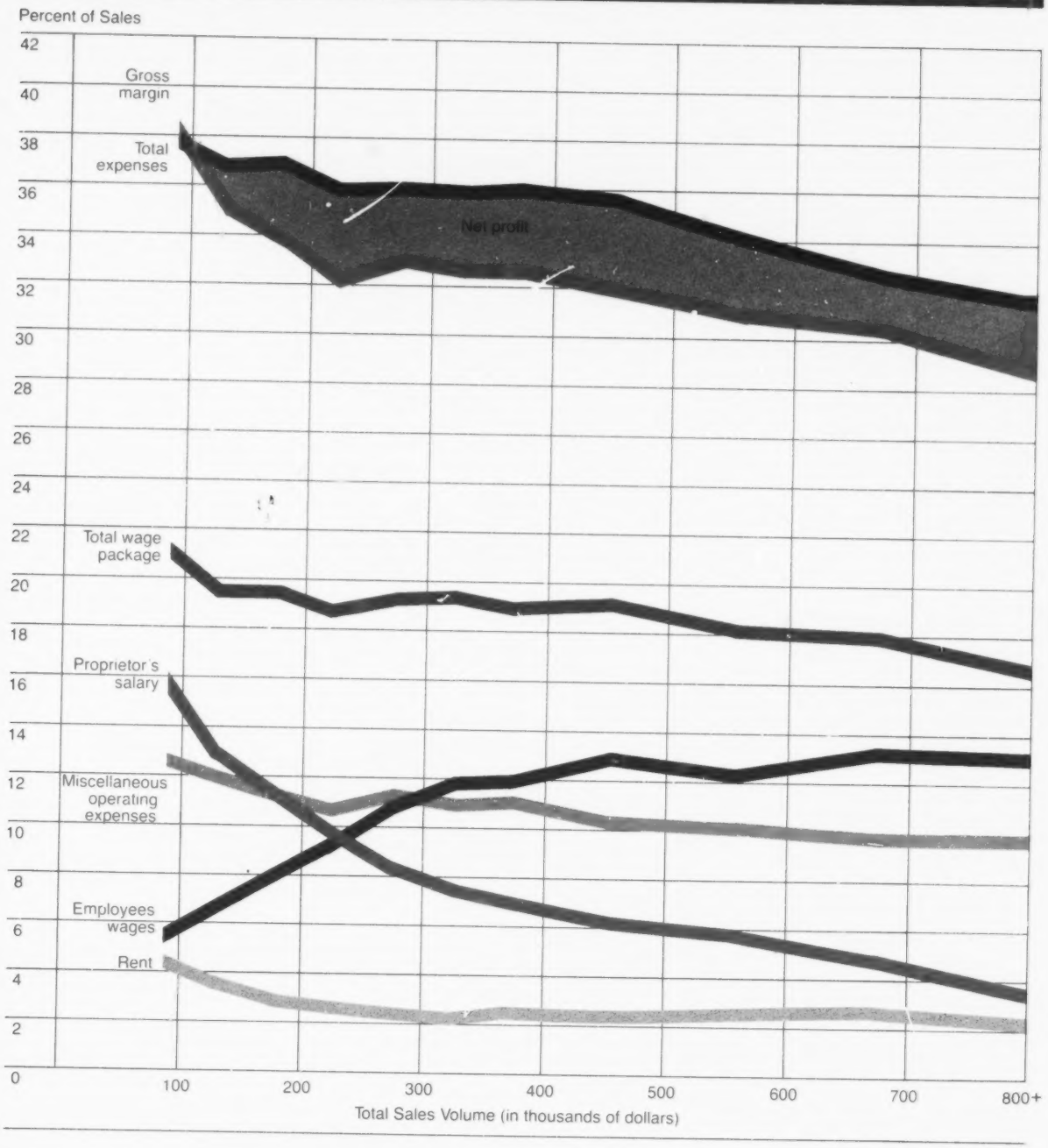


Table 3 *Summary of sales volume in 1979*

Averages per Pharmacy	Total Sales under $100,000 (48 Pharmacies)		Total Sales $100,000 to $150,000 (110 Pharmacies)	
Sales				
Prescription	$56,746	70.8%	$ 91,337	70.6%
Other	23,396	29.2%	38,011	29.4%
Total	$80,142	100.0%	$129,348	100.0%
Cost of goods sold	49,651	62.0%	81,804	63.2%
Gross margin	$30,491	38.0%	$ 47,544	36.8%
Expenses				
Proprietor's or manager's salary	$12,870	16.1%	$ 16,737	12.9%
Employees' wages	4,267	5.3%	8,510	6.6%
Rent	3,691	4.6%	4,592	3.6%
Heat, light, and power	883	1.1%	1,256	1.0%
Accounting, legal, and other professional fees	499	0.6%	772	0.6%
Taxes (except on buildings, income, and profit) and licenses	1,003	1.3%	1,708	1.3%
Insurance (except on buildings)	794	1.0%	1,365	1.1%
Interest paid	1,276	1.6%	1,604	1.2%
Repairs	209	0.3%	547	0.4%
Delivery	583	0.7%	811	0.6%
Advertising	1,081	1.3%	1,512	1.2%
Depreciation (except on buildings)	1,003	1.3%	1,518	1.2%
Bad debts charged off	88	0.1%	157	0.1%
Telephone	654	0.8%	835	0.6%
Miscellaneous	1,935	2.4%	3,400	2.6%
		12.5%		11.9%
Total expenses	$30,836	38.5%	$ 45,324	35.0%
Net profit (before taxes)	($ 345)	(0.5%)	$ 2,220	1.8%
Add proprietor's withdrawals	12,870	16.1%	16,737	12.9%
Total income of self-employed proprietor (before taxes on income and profits)	$12,525	15.6%	$ 18,957	14.7%
Value of inventory at cost and as a percent of sales				
Prescription	$10,794	19.0%	$ 14,589	16.0%
Other	6,837	29.2%	10,897	28.7%
Total	$17,631	22.0%	$ 25,486	19.7%
Annual rate of turnover of inventory	2.9 times		3.3 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	314	$178.72	325	$279.62
Other	762	31.90	871	44.54
Total	1,076	74.70	1,196	108.48
Sales per dollar invested in inventory				
Prescription	$5.26		$6.26	
Other	3.42		3.49	
Net profit per dollar invested in inventory	($0.020)		$0.090	
Number of prescriptions dispensed				
New	4,541	57.7%	6,354	49.0%
Renewed	3,331	42.3%	6,624	51.0%
Total	7,872	100.0%	12,978	100.0%
Prescription charge	$7.21		$7.04	
Number of hours per week				
Pharmacy was open	49 hours		53 hours	
Worked by proprietor	45 hours		47 hours	
Worked by employed pharmacist(s)	5 hours		11 hours	

*Based on averages of pharmacies that reported all data

Total Sales $150,000 to $200,000 (171 Pharmacies)	Total Sales $200,000 to $250,000 (173 Pharmacies)	Total Sales $250,000 to $300,000 (176 Pharmacies)	Total Sales $300,000 to $350,000 (139 Pharmacies)
$114,966– 65.0%	$139,854– 62.5%	$167,526– 61.0%	$191,062– 58.9%
61,972– 35.0%	83,989– 37.5%	107,260– 39.0%	133,489– 41.1%
$176,938–100.0%	$223,843–100.0%	$274,786–100.0%	$324,551–100.0%
111,483– 63.0%	143,488– 64.1%	175,992– 64.0%	207,963– 64.1%
$ 65,455– 37.0%	$ 80,355– 35.9%	$ 98,794– 36.0%	$116,588– 35.9%
$ 20,202– 11.4%	$ 21,748– 9.7%	$ 23,008– 8.4%	$ 24,193– 7.5%
14,250– 8.1%	20,416– 9.1%	30,022– 10.9%	38,576– 11.9%
5,244– 3.0%	5,711– 2.6%	6,470– 2.4%	7,613– 2.3%
1,723– 1.0%	1,980– 0.9%	2,430– 0.9%	2,823– 0.9%
934– 0.5%	1,304– 0.6%	1,658– 0.6%	1,614– 0.5%
2,344– 1.3%	3,078– 1.4%	4,354– 1.6%	5,558– 1.7%
1,952– 1.1%	2,463– 1.1%	3,123– 1.1%	3,691– 1.1%
1,786– 1.0%	1,920– 0.9%	2,450– 0.9%	2,088– 0.7%
614– 0.3%	708– 0.3%	827– 0.3%	1,281– 0.4%
1,190– 0.7%	1,119– 0.5%	1,247– 0.4%	1,725– 0.5%
1,865– 1.1%	2,424– 1.1%	2,938– 1.1%	3,342– 1.0%
1,927– 1.1%	2,374– 1.1%	2,930– 1.1%	2,802– 0.9%
248– 0.1%	297– 0.1%	722– 0.3%	499– 0.2%
897– 0.5%	1,016– 0.4%	1,138– 0.4%	1,337– 0.4%
4,425– 2.5%	5,198– 2.3%	7,163– 2.6%	8,527– 2.6%
11.2%	10.7%	11.3%	10.9%
$ 59,601– 33.7%	$ 71,756– 32.1%	$ 90,480– 33.0%	$105,669– 32.6%
$ 5,854– 3.3%	$ 8,599– 3.8%	$ 8,314– 3.0%	$ 10,919– 3.3%
20,202– 11.4%	21,748– 9.7%	23,008– 8.4%	24,193– 7.5%
$ 26,056– 14.7%	$ 30,347– 13.5%	$31,322– 11.4%	$ 35,112– 10.8%
$ 15,890– 13.8%	$ 18,960– 13.6%	$ 20,346– 12.1%	$ 23,413– 12.3%
17,403– 28.1%	20,411– 24.3%	27,018– 25.2%	30,243– 22.7%
$ 33,293– 18.8%	$ 39,371– 17.6%	$ 47,364– 17.2%	$ 53,656– 16.5%
3.5 times	3.7 times	3.8 times	4.0 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
322 $350.95	350 $400.07	352 $468.81	351 $542.98
1,200 53.50	1,399 60.05	1,637 66.83	1,824 73.33
1,522 116.41	1,749 128.15	1,989 138.04	2,175 149.16
$7.24	$7.38	$8.23	$8.16
3.56	4.11	3.97	4.41
$0.180	$0.220	$0.180	$0.200
7,884– 50.1%	9,694– 49.4%	11,514– 49.3%	12,705– 46.8%
7,854– 49.9%	9,916– 50.6%	11,830– 50.7%	14,449– 53.2%
15,738–100.0%	19,610–100.0%	23,344–100.0%	27,154–100.0%
$7.30	$7.13	$7.18	$7.04
56 hours	58 hours	60 hours	63 hours
50 hours	50 hours	49 hours	49 hours
12 hours	18 hours	30 hours	32 hours

Table 3 *Summary of sales volume in 1979 (continued)*

Averages per Pharmacy	Total Sales $350,000 to $400,000 (122 Pharmacies)		Total Sales $400,000 to $500,000 (189 Pharmacies)	
Sales				
Prescription	$195,526	52.3%	$243,736	54.0%
Other	178,446	47.7%	207,830	46.0%
Total	$373,972	100.0%	$451,566	100.0%
Cost of goods sold	239,427	64.0%	290,553	64.3%
Gross margin	$134,545	36.0%	$161,013	35.7%
Expenses				
Proprietor's or manager's salary	$ 26,066	7.0%	$ 28,149	6.2%
Employees' wages	44,734	12.0%	58,663	13.0%
Rent	9,302	2.5%	10,966	2.4%
Heat, light, and power	3,655	1.0%	3,742	0.8%
Accounting, legal, and other professional fees	1,914	0.5%	2,035	0.5%
Taxes (except on buildings, income, and profit) and licenses	6,047	1.6%	6,625	1.5%
Insurance (except on buildings)	4,254	1.1%	4,868	1.1%
Interest paid	2,923	0.8%	2,410	0.5%
Repairs	1,415	0.4%	1,406	0.3%
Delivery	1,760	0.5%	1,792	0.4%
Advertising	3,828	1.0%	5,029	1.1%
Depreciation (except on buildings)	3,614	1.0%	3,494	0.8%
Bad debts charged off	806	0.2%	795	0.2%
Telephone	1,353	0.3%	1,425	0.3%
Miscellaneous	9,991	2.7%	12,509	2.8%
	11.1%		10.3%	
Total expenses	$121,662	32.6%	$143,908	31.9%
Net profit (before taxes)	$ 12,883	3.4%	$ 17,105	3.8%
Add proprietor's withdrawals	26,066	7.0%	28,149	6.2%
Total income of self-employed proprietor (before taxes on income and profits)	$ 38,949	10.4%	$ 45,254	10.0%
Value of inventory at cost and as a percent of sales				
Prescription	$ 22,665	11.6%	$ 26,982	11.1%
Other	41,125	23.0%	45,489	21.9%
Total	$63,790	17.1%	$ 72,471	16.0%
Annual rate of turnover of inventory	3.9 times		4.1 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	406	$481.48	397	$610.96
Other	2,513	70.91	2,391	87.19
Total	2,919	128.05	2,788	161.76
Sales per dollar invested in inventory				
Prescription	$8.63		$9.03	
Other	4.34		4.57	
Net profit per dollar invested in inventory	$0.200		$0.240	
Number of prescriptions dispensed				
New	13,514	50.4%	17,085	49.3%
Renewed	13,307	49.6%	17,605	50.7%
Total	26,821	100.0%	34,690	100.0%
Prescription charge	$7.29		$7.03	
Number of hours per week				
Pharmacy was open	65 hours		68 hours	
Worked by proprietor	48 hours		48 hours	
Worked by employed pharmacist(s)	40 hours		50 hours	

*Based on averages of pharmacies that reported all data

Total Sales $500,000 to $600,000 (117 Pharmacies)	Total Sales $600,000 to $750,000 (93 Pharmacies)	Total Sales over $750,000 (120 Pharmacies)
$267,350– 49.1%	$265,304– 39.6%	$383,349– 34.4%
276,738– 50.9%	405,146– 60.4%	729,645– 65.6%
$544,088–100.0%	$670,450–100.0%	$112,994–100.0%
358,440– 65.9%	451,372– 67.3%	766,692– 68.9%
$185,648– 34.1%	$219,078– 32.7%	$346,302– 31.1%
$ 31,594– 5.8%	$ 31,564– 4.7%	$ 39,451– 3.5%
67,623– 12.4%	89,433– 13.3%	147,043– 13.2%
13,367– 2.5%	18,196– 2.7%	25,300– 2.3%
4,163– 0.8%	5,825– 0.9%	8,149– 0.7%
2,237– 0.4%	2,519– 0.4%	4,210– 0.4%
8,478– 1.6%	10,156– 1.5%	15,763– 1.4%
6,067– 1.1%	7,036– 1.0%	11,088– 1.0%
3,080– 0.6%	3,549– 0.5%	5,567– 0.5%
1,899– 0.3%	2,214– 0.3%	3,930– 0.4%
2,326– 0.4%	2,623– 0.4%	3,163– 0.3%
6,226– 1.1%	8,067– 1.2%	13,609– 1.2%
4,718– 0.9%	5,164– 0.8%	7,647– 0.7%
678– 0.1%	380– 0.1%	1,242– 0.1%
1,617– 0.3%	1,795– 0.3%	3,010– 0.3%
14,113– 2.6%	16,098– 2.4%	31,750– 2.8%
10.2%	9.8%	9.8%
$168,186– 30.9%	$204,619– 30.5%	$320,922– 28.8%
$ 17,462– 3.2%	$ 14,459– 2.2%	$ 25,380– 2.3%
31,594– 5.8%	31,564– 4.7%	39,451– 3.5%
$ 49,056– 9.0%	$ 46,023– 6.9%	$ 64,831– 5.8%
$ 28,270– 10.6%	$ 27,883– 10.5%	$ 39,392– 10.3%
53,159– 19.2%	81,157– 20 0%	129,880– 17.8%
$ 81,429– 15.0%	$109,040– 16.3%	$169,272– 15.2%
4.6 times	4.3 times	4.8 times
sq. ft.	sq. ft.	sq. ft.
410 $654.61	405 $645.03	560 $682.00
2,640 104.13	4,151 98.52	5,322 131.57
3,050 178.22	4,556 147.15	5,882 183.93
$9.46	$9.51	$9.73
5.21	4.99	5.62
$0.210	$0.130	$0.150
17,569– 48.9%	18,302– 49.0%	27,589– 52.1%
18,379– 51.1%	19,053– 51.0%	25,392– 47.9%
35,948–100.0%	37,355–100.0%	52,981–100.0%
$7.44	$7.10	$7.24
71 hours	74 hours	79 hours
48 hours	48 hours	49 hours
59 hours	71 hours	99 hours

Net Profit—No clear-cut relationship between net profit and sales volume can be observed in Chart 1, although the highest-sales-volume pharmacies tend to show a smaller net profit as a percentage of total sales. A more detailed discussion of net profit appears on page 36.

Inventory—The largest investment of the average community pharmacy is in merchandise inventory. The ability of management to control this asset can make the difference between a profitable and an unprofitable operation. The elements of an effective inventory control program include purchases commensurate with sales, allowing for seasonal variation and changing usage patterns as well as monitoring for pilferage. The real challenge of successful inventory management is to support an expanding level of sales activity while keeping the investment at the lowest level consistent with adequate consumer service.

An acceptable measure of the effectiveness of an inventory control system is the "turnover ratio." This ratio is determined by dividing the cost of goods sold by the average inventory at cost (or opening plus ending inventory divided by 2).

The calculated turnover rate is the number of times the average inventory is sold and replaced during the year. Table 3 suggests that the turnover rate increases with rising total sales even though the inventory dollar investment is greater.

Pharmacy Hours—The average pharmacy reporting to the LILLY DIGEST was open 64 hours per week during 1979, as compared with 65 hours in 1978. Table 3 indicates that the number of hours a store is open is related directly to sales volume. Pharmacies with less than $250,000 annual sales volume were open under 60 hours per week. Those with a sales volume in the $250,000 to $500,000 range were open between 60 and 68 hours per week. Above the $500,000 level, the average hours of pharmacy operation ranged from 71 to 79. The decision to remain open longer must be accompanied by sales productivity for the extra hours, or net profit will be reduced.

The number of hours worked by employed pharmacists was generally lower in 1979 than in previous years, when these data are compared in units of similar sales size. This trend continues to be evident and is probably caused by shorter business hours and the greater use of auxiliary personnel or mechanical methods to improve productivity.

It is suggested that the tables concerning geographic region, location, and prescription activity also be considered when management evaluates the number of hours a pharmacy is open and the hours worked by employed pharmacists.

The average prescription charge went up by 9.3 percent during 1979 to a new high of $7.18—up 61 cents from the 1978 figure. A comparison of the average prescription charge index with various standard price indices is found in Table 4. The LILLY DIGEST average prescription charge is 96.2 percent higher than it was in 1967. However, from a consumer's point of view, it is important to realize the unseen value attached to this prescription charge, for the actual size of the average prescription has been growing continually over this period and now stands at 140.2. This means that 40.2 percent more doses were purchased in 1979 than in 1967. Therefore, it would be misleading to use the average prescription charge as a measure of pharmaceutical price changes.

Accurate indicators of drug prices are to be found in the Consumer Price Index (CPI) and Wholesale Price Index (WPI), prepared and published by the U.S. Department of Labor's Bureau of Labor Statistics (BLS). Corresponding measures are independently prepared by Dr. John M. Firestone, of the City University of New York. Each of Dr. Firestone's indices of retail and wholesale drug prices includes many more drugs than either of the BLS measures. In cooperation with the Pharmaceutical Manufacturers Association, Dr. Firestone also compiles the Firestone Average Prescription Size Index. It should be noted that each of the BLS and Firestone indices takes into account changes in the total number of doses in a prescription.

Table 4 *The average prescription charge index compared with standard price indices (1967 = 100)*

Year	BLS-CPI Prescription Subsection	PMA-Firestone Retail Ethical Pharmaceuticals	BLS-WPI Ethical Pharmaceuticals Subsection	PMA-Firestone Wholesale Ethical Pharmaceuticals	LILLY DIGEST Average Prescription Charge	PMA-Firestone Average Prescription Size
1967	100.0	100.0	100.0	100.0	100.0	100.0
1968	98.3	99.2	99.0	99.1	102.7	102.6
1969	99.6	99.8	99.5	100.1	106.6	106.0
1970	101.2	101.3	99.2	101.0	110.9	109.5
1971	101.3	102.5	99.0	102.9	115.0	112.8
1972	100.9	102.9	99.9	102.4	119.7	117.7
1973	100.5	103.2	99.9	102.7	124.0	122.6
1974	102.9	105.2	104.2	109.3	131.4	127.0
1975	109.3	112.2	113.2	116.2	141.5	130.2
1976	115.2	116.9	120.3	123.8	154.6	135.1
1977	122.1	121.9	125.4	131.7	166.7	138.3
1978	131.6	128.7	131.9	138.8	179.5	138.6
1979	141.8	137.1	141.2	146.1	196.2	140.2

Table 4 lists the CPI and the Firestone retail price index, the WPI and the Firestone wholesale price index, the LILLY DIGEST Average Prescription Charge Index, and the Firestone Average Prescription Size Index. The LILLY DIGEST Average Prescription Charge Index is higher than any of the other indices because it reflects the rapid growth of the average prescription size. For this reason, it should not be used to measure drug price changes. The LILLY DIGEST Average Prescription Charge Index is simply a ratio of prescription revenue to prescriptions dispensed.

Table 5 *Averages of pharmacy operations—1970-1979 (based on all pharmacies reporting)*

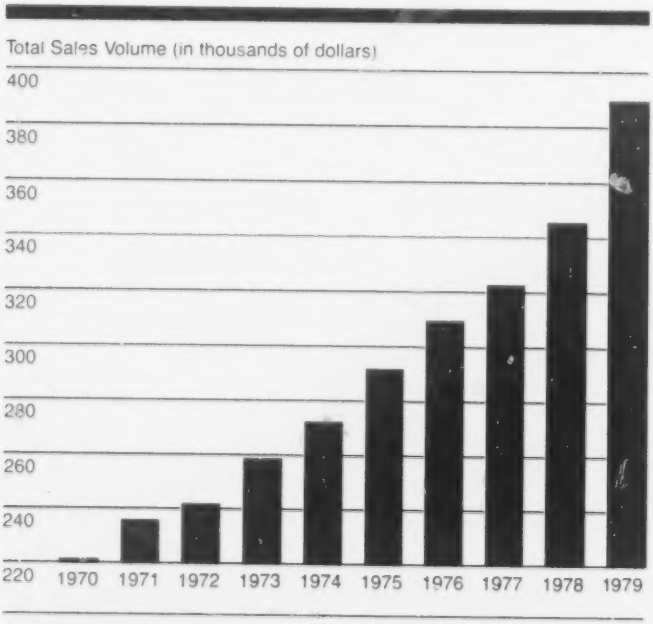
Expressed in Dollars

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1970	$221,470	$141,396	$ 80,074	$17,892	$26,738	$5,497	$20,728	$ 70,905	$ 9,169	$38,788
1971	236,604	151,363	84,641	18,932	28,450	5,842	22,249	75,473	9,168	40,814
1972	241,910	154,566	87,344	20,304	29,104	6,077	23,144	78,629	8,715	41,435
1973	259,122	165,601	93,521	21,050	30,596	6,571	25,530	83,747	9,774	44,104
1974	272,340	174,922	97,418	22,302	31,427	6,738	26,939	87,406	10,012	46,237
1975	293,785	189,624	104,161	22,469	34,471	7,248	28,972	93,160	11,001	48,781
1976	309,725	200,871	108,854	22,597	36,417	7,758	31,072	97,844	11,010	51,008
1977	322,755	209,954	112,801	22,622	38,063	8,080	33,013	101,778	11,023	53,382
1978	345,302	225,651	119,651	23,896	39,914	8,436	35,938	108,184	11,467	56,942
1979	391,681	257,334	134,347	25,346	46,759	9,783	40,844	122,732	11,615	64,066

Ten-Year Trends in Pharmacy Operations—Total sales continued their upward climb during 1979, as Chart 2 indicates. Sales volume increased by 13.4 percent over the previous year. This growth rate was higher than the average annual growth rate of 7.7 over the past decade.

Table 5 presents changes in pharmacy operating data expressed in dollars and in percentages of sales. The cost of goods sold continued to move upward. Since the lower total expenses figure could not offset the lower gross margin value, net profit slipped to a record low of 3.0 percent of sales. Net profit before taxes has generally declined from 4.1 percent of sales in 1970; however, in dollars it has grown to $11,615. Rental expense rose to 2.5 percent of sales to return to its more consistent annual rate. Proprietor's salary continued to drop in 1979 to 6.5 percent of sales, down from 8.1 percent recorded in 1970.

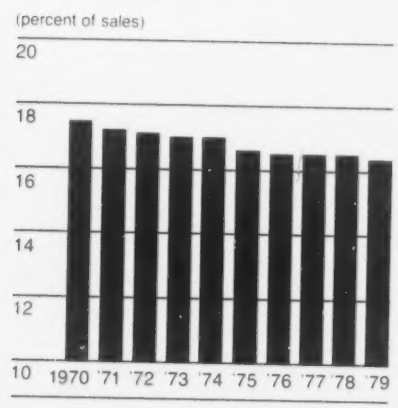
Chart 2 *A decade of sales growth*



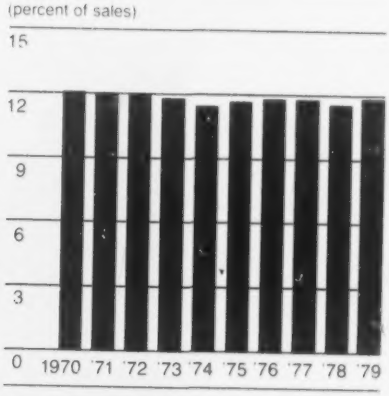
Expressed in Percentage of Sales

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Turnover (Times)
1970	100.0	63.9	36.1	8.1	12.1	2.5	9.3	32.0	4.1	3.7
1971	100.0	64.2	35.8	8.0	12.0	2.5	9.4	31.9	3.9	3.8
1972	100.0	63.9	36.1	8.4	12.0	2.5	9.6	32.5	3.6	3.8
1973	100.0	63.9	36.1	8.1	11.8	2.5	9.9	32.3	3.8	3.9
1974	100.0	64.2	35.8	8.2	11.5	2.5	9.9	32.1	3.7	3.9
1975	100.0	64.5	35.5	7.7	11.7	2.5	9.9	31.8	3.7	4.0
1976	100.0	64.9	35.1	7.3	11.8	2.5	9.9	31.5	3.6	4.1
1977	100.0	65.1	34.9	7.0	11.8	2.5	10.2	31.5	3.4	4.0
1978	100.0	65.3	34.7	6.9	11.6	2.4	10.5	31.4	3.3	4.1
1979	100.0	65.7	34.3	6.5	11.9	2.5	10.4	31.3	3.0	4.2

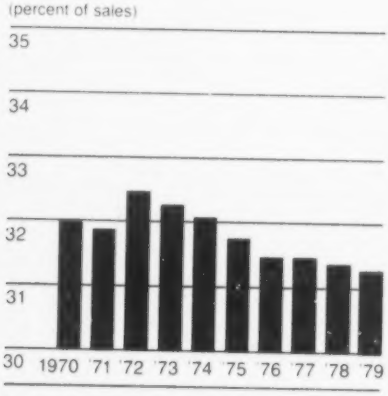
Ten-Year Trends in Pharmacy Operations



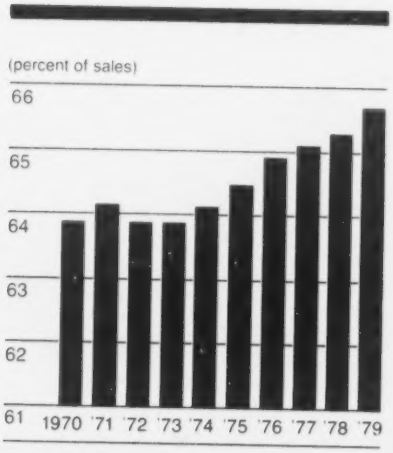
Inventory at Cost



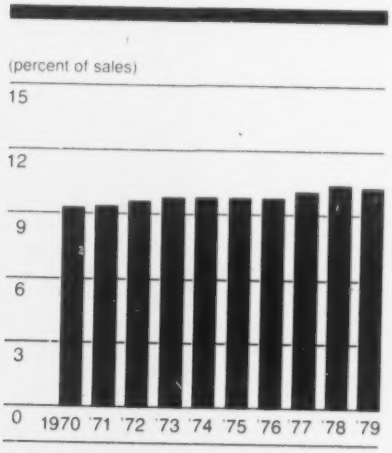
Employees' Wages



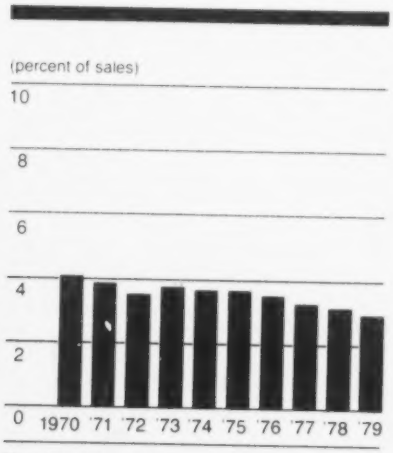
Total Expenses



Cost of Goods Sold



Other Expenses



Net Profit

Prescription Department Analysis

Prescription department sales have expanded steadily over the past 20 years. This suggests that the economic future of the community pharmacy appears to be closely linked to a viable and dynamic prescription department. This area's contribution has grown from 34.6 percent of total sales in 1960 to 49.8 percent in 1979. This statistic supports the assertion that the professional area has been primarily responsible for the consistent growth of total sales.

The differences that occur in operating statistics as a result of the changes in both daily prescription activity and prescription income as a percent of total sales are shown in Tables 7 and 8 (see following pages). Chart 3 depicts operating statistics selected from these tables. When prescription income rises as a percent of total sales, gross margin increases, as does the number of prescriptions dispensed. As expected, increased prescription volume necessitates employing additional professionals to handle the higher volume of activity, resulting in more wage expense, which is reflected in higher total expenses. Along with rising prescription income, the general trend of net profit is upward.

Inventory investment, as a percent of sales, tends to decline when the ratio of prescription income to total sales rises. The result is a higher net profit per dollar of inventory investment in the prescription-oriented pharmacy. These prescription-oriented stores are usually characterized by limited merchandise space and small floor area, which may partly explain their lower inventory level, although monitoring and control of inventory may be more efficient in such operations.

Since most state laws require that a registered pharmacist be present whenever the store is open, even though prescription volume may not warrant this, the ratio of prescriptions per employed pharmacist hour can be low, particularly in merchandise-oriented pharmacies that dispense few prescriptions. However, with greater prescription activity, pharmacist utilization for prescription output may reach capacity, and additional professionals may be needed to meet the increased demand. It can be calculated that, on the average, 7.2 prescriptions per pharmacist hour were dispensed (assuming that 75 percent of the proprietor's time was devoted to the prescription area). This statistic was up one prescription per hour when compared with similar data reported in the 1979 LILLY DIGEST.

The break-even point for the 1,458 pharmacies submitting data to the LILLY DIGEST was reached in 10.1 months, when 84.2 percent of total sales had been recorded. Table 6 lists break-even data for the past ten years. The 1979 figure represents the longest time period and highest percent of sales yet recorded for the break-even point. This was also the first time in a decade that the break-even point exceeded the ten-month level. At the break-even point, all fixed costs of operation for the year are covered as well as the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages, advertising, bad debts, and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit.

Table 6 *Average community pharmacy break-even data—1970-1979*

1970	9.5 months—79.0 percent of total sales
1971	9.6 months—79.9 percent of total sales
1972	9.9 months—82.3 percent of total sales
1973	9.8 months—81.5 percent of total sales
1974	9.8 months—82.0 percent of total sales
1975	9.7 months—81.2 percent of total sales
1976	9.8 months—81.8 percent of total sales
1977	9.9 months—82.2 percent of total sales
1978	9.9 months—82.7 percent of total sales
1979	10.1 months—84.2 percent of total sales

Chart 3 *Selected operating statistics according to prescription income as a percent of sales*

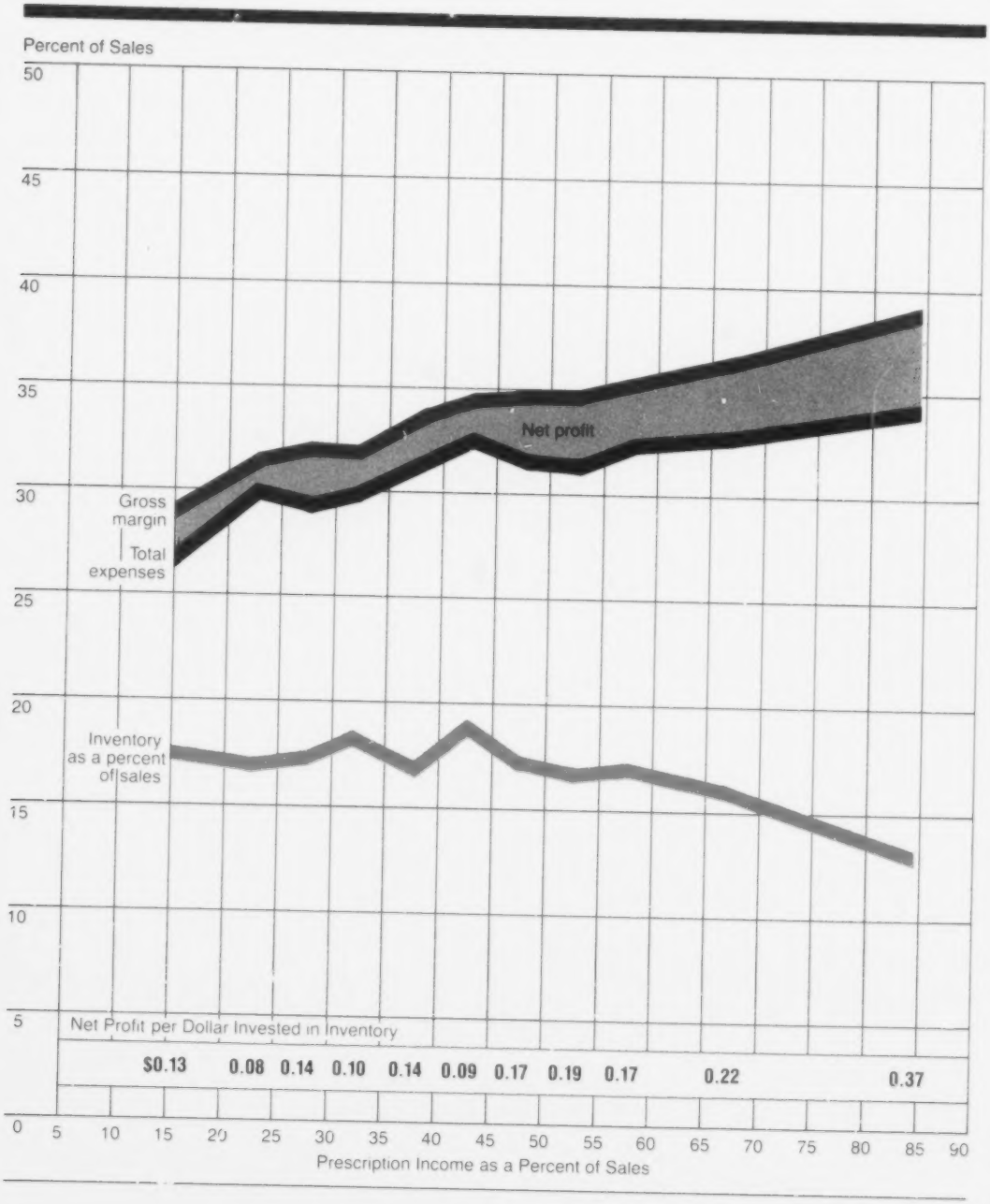


Table 7 *Summary by number of prescriptions dispensed daily in 1979*

Averages pe: Pharmacy	Under 25 Prescriptions Daily (83 Pharmacies)	25 to 35 Prescriptions Daily (116 Pharmacies)	35 to 50 Prescriptions Daily (233 Pharmacies)	50 to 60 Prescriptions Daily (200 Pharmacies)
Sales				
Prescription	$ 53,040— 36.2%	$ 84,156— 41.1%	$114,803— 48.5%	$146,141— 47.7%
Other	93,539— 63.8%	120,772— 58.9%	121,695— 51.5%	160,364— 52.3%
Total	$146,579—100.0%	$204,928—100.0%	$236,498—100.0%	$306,505—100.0%
Cost of goods sold	95,379— 65.1%	137,233— 67.0%	153,348— 64.8%	200,026— 65.3%
Gross margin	$ 51,200— 34.9%	$ 67,695— 33.0%	$ 83,150— 35.2%	$106,479— 34.7%
Expenses				
Proprietor's or manager's salary	$ 15,001— 10.2%	$ 18,010— 8.8%	$ 21,026— 8.9%	$ 23,659— 7.7%
Employees' wages	11,813— 8.1%	16,665— 8.1%	23,436— 9.9%	33,995— 11.1%
Rent	5,380— 3.7%	6,137— 3.0%	6,361— 2.7%	8,074— 2.6%
Heat, light, and power	1,932— 1.3%	2,269— 1.1%	2,376— 1.0%	2,964— 1.0%
Accounting, legal, and other professional fees	710— 0.5%	989— 0.5%	1,244— 0.5%	1,678— 0.5%
Taxes (except on buildings, income, and profit) and licenses	1,641— 1.1%	2,755— 1.3%	3,351— 1.4%	4,655— 1.5%
Insurance (except on buildings)	1,451— 1.0%	2,113— 1.0%	2,628— 1.1%	3,294— 1.1%
Interest paid	1,867— 1.3%	2,101— 1.0%	2,302— 1.0%	2,590— 0.8%
Repairs	635— 0.4%	828— 0.4%	845— 0.4%	1,121— 0.4%
Delivery	693— 0.5%	965— 0.5%	1,142— 0.5%	1,381— 0.5%
Advertising	1,776— 1.2%	2,565— 1.3%	2,899— 1.2%	3,728— 1.2%
Depreciation (except on buildings)	1,682— 1.1%	2,051— 1.0%	2,521— 1.1%	3,104— 1.0%
Bad debts charged off	154— 0.1%	248— 0.1%	239— 0.1%	299— 0.1%
Telephone	773— 0.5%	865— 0.4%	962— 0.4%	1,086— 0.4%
Miscellaneous	3,702— 2.5%	4,669— 2.3%	5,433— 2.3%	7,360— 2.4%
	11.5%	10.9%	11.0%	10.9%
Total expenses	$ 49,210— 33.5%	$ 63,230— 30.8%	$ 76,765— 32.5%	$ 98,988— 32.3%
Net profit (before taxes)	$ 1,990— 1.4%	$ 4,465— 2.2%	$ 6,385— 2.7%	$ 7,491— 2.4%
Add proprietor's withdrawals	15,001— 10.2%	18,010— 8.8%	21,026— 8.9%	23,659— 7.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 16,991— 11.6%	$ 22,475— 11.0%	$ 27,411— 11.6%	$ 31,150— 10.1%
Value of inventory at cost and as a percent of sales				
Prescription	$ 11,068— 20.9%	$ 13,403— 15.9%	$ 17,242— 15.0%	$ 18,940— 13.0%
Other	24,210— 25.9%	27,675— 22.9%	29,571— 24.3%	35,295— 22.0%
Total	$ 35,278— 24.1%	$ 41,078— 20.0%	$ 46,813— 19.8%	$ 54,235— 17.7%
Annual rate of turnover of inventory	2.8 times	3.5 times	3.4 times	3.8 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	296 $179.69	296 $282.83	328 $349.09	349 $417.60
Other	1,433 62.94	1,686 73.89	1,792 70.78	2,078 79.53
Total	1,729 89.08	1,982 110.02	2,120 121.48	2,427 138.02
Sales per dollar invested in inventory				
Prescription	$4.79	$6.28	$6.66	$7.72
Other	3.86	4.36	4.12	4.54
Net profit per dollar invested in inventory	$0.056	$0.109	$0.136	$0.138
Number of prescriptions dispensed				
New	3,460— 51.1%	5,559— 50.3%	7,431— 48.8%	9,793— 49.7%
Renewed	3,313— 48.9%	5,485— 49.7%	7,790— 51.2%	9,916— 50.3%
Total	6,773—100.0%	11,044—100.0%	15,221—100.0%	19,709—100.0%
Prescription charge	$7.83	$7.62	$7.54	$7.42
Number of hours per week				
Pharmacy was open	54 hours	57 hours	60 hours	62 hours
Worked by proprietor	46 hours	47 hours	49 hours	47 hours
Worked by employed pharmacist(s)	9 hours	11 hours	20 hours	28 hours

*Based on averages of pharmacies that reported all data

60 to 75 Prescriptions Daily (243 Pharmacies)	75 to 100 Prescriptions Daily (262 Pharmacies)	100 to 125 Prescriptions Daily (149 Pharmacies)	125 to 150 Prescriptions Daily (87 Pharmacies)	150 to 200 Prescriptions Daily (58 Pharmacies)	Over 200 Prescriptions Daily (27 Pharmacies)
$180,139— 50.1%	$221,224— 48.6%	$284,687— 55.3%	$339,283— 55.1%	$416,128— 51.8%	$ 614,630— 47.3%
179,634— 49.9%	234,422— 51.4%	230,073— 44.7%	276,873— 44.9%	386,747— 48.2%	683,619— 52.7%
$359,773—100.0%	$455,646—100.0%	$514,760—100.0%	$616,156—100.0%	$802,875—100.0%	$1,298,249—100.0%
235,117— 65.4%	299,172— 65.7%	337,461— 65.6%	399,571— 64.8%	532,926— 66.4%	894,506— 68.9%
$124,656— 34.6%	$156,474— 34.3%	$177,299— 34.4%	$216,585— 35.2%	$269,949— 33.6%	$ 403,743— 31.1%
$ 25,373— 7.1%	$ 27,791— 6.1%	$ 29,337— 5.7%	$ 34,039— 5.5%	$ 37,516— 4.7%	$ 38,298— 2.9%
41,973— 11.7%	55,660— 12.2%	64,402— 12.5%	84,549— 13.7%	105,357— 13.1%	190,994— 14.7%
8,723— 2.4%	11,334— 2.5%	12,211— 2.4%	15,296— 2.5%	19,518— 2.4%	23,582— 1.8%
3,179— 0.9%	3,845— 0.8%	3,859— 0.7%	4,451— 0.7%	4,938— 0.6%	7,382— 0.6%
1,988— 0.5%	2,063— 0.5%	2,078— 0.4%	2,271— 0.4%	3,116— 0.4%	4,406— 0.3%
5,647— 1.6%	7,012— 1.5%	7,494— 1.5%	9,327— 1.5%	11,345— 1.4%	20,865— 1.6%
4,241— 1.2%	4,887— 1.1%	5,369— 1.0%	6,262— 1.0%	8,694— 1.1%	12,893— 1.0%
2,658— 0.7%	2,478— 0.5%	2,458— 0.5%	3,319— 0.6%	2,873— 0.4%	7,323— 0.6%
1,203— 0.3%	1,712— 0.4%	1,561— 0.3%	2,108— 0.4%	2,160— 0.3%	3,973— 0.3%
1,491— 0.4%	1,907— 0.4%	2,331— 0.5%	2,535— 0.4%	2,731— 0.3%	4,541— 0.3%
4,116— 1.1%	4,447— 1.0%	6,221— 1.2%	7,842— 1.3%	8,370— 1.0%	12,649— 1.0%
3,195— 0.9%	3,613— 0.8%	4,231— 0.8%	4,414— 0.7%	5,469— 0.7%	10,043— 0.8%
635— 0.2%	694— 0.2%	982— 0.2%	811— 0.1%	1,467— 0.2%	1,071— 0.1%
1,389— 0.4%	1,460— 0.3%	1,679— 0.3%	1,876— 0.3%	2,703— 0.3%	3,488— 0.2%
9,345— 2.6%	12,071— 2.6%	14,983— 2.9%	17,951— 2.9%	24,642— 3.1%	32,079— 2.5%
$115,156— 32.0%	$140,974— 30.9%	$159,196— 30.9%	$197,051— 32.0%	$240,899— 30.0%	$ 373,587— 28.7%
$ 9,500— 2.6%	$ 15,500— 3.4%	$ 18,103— 3.5%	$ 19,534— 3.2%	$ 29,050— 3.6%	$ 30,156— 2.4%
25,373— 7.1%	27,791— 6.1%	29,337— 5.7%	34,039— 5.5%	37,516— 4.7%	38,298— 2.9%
$ 34,873— 9.7%	$ 43,291— 9.5%	$ 47,440— 9.2%	$ 53,573— 8.7%	$ 66,566— 8.3%	$ 68,454— 5.3%
$ 21,900— 12.2%	$ 25,503— 11.5%	$ 29,249— 10.3%	$34,070— 10.0%	$ 40,862— 9.8%	$ 54,577— 8.9%
39,102— 21.8%	48,216— 20.6%	46,796— 20.3%	51,722— 18.7%	63,918— 16.5%	128,788— 18.8%
$ 61,002— 17.0%	$ 73,719— 16.2%	$ 76,045— 14.8%	$ 85,792— 13.9%	$104,780— 13.1%	$ 183,365— 14.1%
4.0 times	4.2 times	4.6 times	4.8 times	5.3 times	5.2 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
359 $502.17	387 $571.99	496 $572.67	452 $749.40	547 $770.01	640 $967.20
2,227 79.67	2,506 93.05	2,316 99.53	2,654 100.19	3,021 115.50	4,514 148.86
2,586 144.46	2,893 163.72	2,812 196.22	3,106 218.45	3,568 255.88	5,154 283.40
$8.23	$8.67	$9.73	$9.96	$10.18	$11.26
4.59	4.86	4.92	5.35	6.05	5.31
$0.156	$0.210	$0.238	$0.228	$0.277	$0.164
11,806— 48.5%	15,372— 50.3%	19,954— 49.7%	24,384— 49.3%	31,257— 51.1%	46,462— 49.0%
12,546— 51.5%	15,193— 49.7%	20,167— 50.3%	25,033— 50.7%	29,863— 48.9%	48,310— 51.0%
24,352—100.0%	30,565—100.0%	40,121—100.0%	49,417—100.0%	61,120—100.0%	94,772—100.0%
$7.40	$7.24	$7.10	$6.87	$6.81	$6.49
64 hours	66 hours	66 hours	69 hours	71 hours	82 hours
47 hours	45 hours	46 hours	43 hours	45 hours	48 hours
35 hours	42 hours	52 hours	66 hours	78 hours	124 hours

10.8%

10.1%

10.3%

10.3%

9.8%

9.3%

Table 8 *Summary of prescription income in 1979*

Averages per Pharmacy	Prescription Income under 20 Percent of Sales (41 Pharmacies)	Prescription Income 20 to 25 Percent of Sales (28 Pharmacies)	Prescription Income 25 to 30 Percent of Sales (71 Pharmacies)	Prescription Income 30 to 35 Percent of Sales (88 Pharmacies)	Prescription Income 35 to 40 Percent of Sales (118 Pharmacies)
Sales					
Prescription	$134,886— 14.9%	$150,777— 22.5%	$178,574— 27.4%	$180,837— 32.2%	$176,244— 37.8%
Other	769,507— 85.1%	519,365— 77.5%	473,162— 72.6%	380,000— 67.8%	290,108— 62.2%
Total	$904,393—100.0%	$670,142—100.0%	$651,736—100.0%	$560,837—100.0%	$466,352—100.0%
Cost of goods sold	645,804— 71.4%	462,042— 68.9%	445,397— 68.3%	383,497— 68.4%	311,133— 66.7%
Gross margin	$258,589— 28.6%	$208,100— 31.1%	$206,339— 31.7%	$177,340— 31.6%	$155,219— 33.3%
Expenses					
Proprietor's or manager's salary	$ 31,397— 3.5%	$ 29,612— 4.4%	$ 30,003— 4.6%	$ 28,868— 5.1%	$ 27,222— 5.8%
Employees' wages	99,721— 11.0%	81,408— 12.1%	82,082— 12.6%	67,940— 12.1%	56,805— 12.2%
Rent	22,479— 2.5%	21,616— 3.2%	15,524— 2.4%	13,602— 2.4%	11,576— 2.5%
Heat, light, and power	7,407— 0.8%	6,647— 1.0%	5,700— 0.9%	4,614— 0.8%	4,563— 1.0%
Accounting, legal, and other professional fees	4,275— 0.5%	3,067— 0.5%	2,507— 0.4%	2,297— 0.4%	1,848— 0.4%
Taxes (except on buildings, income, and profit) and licenses	10,586— 1.2%	10,702— 1.6%	10,080— 1.5%	7,538— 1.4%	6,711— 1.4%
Insurance (except on buildings)	7,060— 0.8%	6,716— 1.0%	6,304— 1.0%	6,572— 1.2%	5,201— 1.1%
Interest paid	4,973— 0.5%	4,087— 0.6%	3,534— 0.5%	4,169— 0.8%	3,335— 0.7%
Repairs	3,423— 0.4%	2,458— 0.4%	2,222— 0.3%	1,840— 0.3%	1,754— 0.4%
Delivery	1,882— 0.2%	1,820— 0.3%	1,624— 0.2%	1,843— 0.3%	1,747— 0.4%
Advertising	10,599— 1.2%	7,833— 1.2%	8,478— 1.3%	7,553— 1.3%	5,611— 1.2%
Depreciation (except on buildings)	6,855— 0.8%	4,207— 0.6%	5,283— 0.8%	4,423— 0.8%	3,912— 0.8%
Bad debts charged off	1,312— 0.1%	492— 0.1%	444— 0.1%	521— 0.1%	523— 0.1%
Telephone	3,013— 0.3%	1,647— 0.2%	1,638— 0.3%	1,584— 0.3%	1,376— 0.3%
Miscellaneous	23,394— 2.6%	16,155— 2.4%	14,724— 2.3%	13,610— 2.4%	11,778— 2.5%
	9.4%	9.9%	9.6%	10.1%	10.3%
Total expenses	$238,376— 26.4%	$198,467— 29.6%	$190,147— 29.2%	$166,974— 29.7%	$143,962— 30.8%
Net profit (before taxes)	$ 20,213— 2.2%	$ 9,633— 1.5%	$ 16,192— 2.5%	$ 10,366— 1.9%	$ 11,257— 2.5%
Add proprietor's withdrawals	31,397— 3.5%	29,612— 4.4%	30,003— 4.6%	28,868— 5.1%	27,222— 5.8%
Total income of self-employed proprietor (before taxes on income and profits)	$ 51,610— 5.7%	$ 39,245— 5.9%	$ 46,195— 7.1%	$ 39,234— 7.0%	$ 38,479— 8.3%
Value of inventory at cost and as a percent of sales					
Prescription	$ 19,934— 14.8%	$ 23,308— 15.5%	$ 22,775— 12.8%	$ 24,101— 13.3%	$ 21,252— 12.1%
Other	135,428— 17.6%	88,088— 17.0%	87,828— 18.6%	76,892— 20.2%	56,329— 19.4%
Total	$155,362— 17.2%	$111,396— 16.6%	$110,603— 17.0%	$100,993— 18.0%	$ 77,581— 16.6%
Annual rate of turnover of inventory	4.5 times	4.4 times	4.2 times	3.9 times	4.2 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	401 $319.18	296 $511.95	407 $401.37	341 $518.25	363 $485.27
Other	5,179 140.82	4,469 117.03	4,423 97.84	3,348 111.09	3,022 95.60
Total	5,580 153.63	4,765 141.54	4,830 123.43	3,689 148.72	3,385 137.38
Sales per dollar invested in inventory					
Prescription	$6.77	$6.47	$7.84	$7.50	$8.29
Other	5.68	5.90	5.39	4.94	5.15
Net profit per dollar invested in inventory	$0.130	$0.086	$0.146	$0.103	$0.145
Number of prescriptions dispensed					
New	10,685— 53.3%	11,310— 52.9%	13,308— 53.0%	13,289— 50.8%	11,899— 49.1%
Renewed	9,378— 46.7%	10,079— 47.1%	11,798— 47.0%	12,858— 49.2%	12,332— 50.9%
Total	20,063—100.0%	21,389—100.0%	25,106—100.0%	26,147—100.0%	24,231—100.0%
Prescription charge	$6.72	$7.05	$7.11	$6.92	$7.27
Number of hours per week					
Pharmacy was open	73 hours	72 hours	75 hours	72 hours	69 hours
Worked by proprietor	51 hours	50 hours	48 hours	49 hours	48 hours
Worked by employed pharmacist(s)	47 hours	67 hours	56 hours	48 hours	43 hours

*Based on averages of pharmacies that reported all data

Prescription Income 40 to 45 Percent of Sales (107 Pharmacies)	Prescription Income 45 to 50 Percent of Sales (123 Pharmacies)	Prescription Income 50 to 55 Percent of Sales (109 Pharmacies)	Prescription Income 55 to 60 Percent of Sales (127 Pharmacies)	Prescription Income 60 to 75 Percent of Sales (354 Pharmacies)	Prescription Income over 75 Percent of Sales (292 Pharmacies)
$180,358– 42.5%	$194,894– 47.6%	$197,088– 52.5%	$198,380– 57.4%	$207,315– 66.4%	$212,550– 84.5%
244,353– 57.5%	214,733– 52.4%	178,410– 47.5%	147,080– 42.6%	104,827– 33.6%	38,962– 15.5%
$424,711–100.0%	$409,627–100.0%	$375,498–100.0%	$345,460–100.0%	$312,142–100.0%	$251,512–100.0%
279,597– 65.8%	268,712– 65.6%	246,387– 65.6%	223,916– 64.8%	199,118– 63.8%	153,916– 61.2%
$145,114– 34.2%	$140,915– 34.4%	$129,111– 34.4%	$121,544– 35.2%	$113,024– 36.2%	$ 97,596– 38.8%
$ 26,108– 6.1%	$ 24,651– 6.0%	$ 23,339– 6.2%	$ 24,324– 7.0%	$ 24,137– 7.7%	$ 23,808– 9.5%
55,816– 13.1%	51,075– 12.5%	45,509– 12.1%	42,611– 12.3%	36,621– 11.7%	26,393– 10.5%
9,961– 2.3%	9,429– 2.3%	8,436– 2.2%	7,162– 2.1%	7,484– 2.4%	8,108– 3.2%
4,248– 1.0%	3,908– 1.0%	3,446– 0.9%	3,083– 0.9%	2,534– 0.8%	1,231– 0.5%
1,884– 0.5%	1,839– 0.5%	1,608– 0.4%	1,554– 0.4%	1,499– 0.5%	1,504– 0.6%
7,185– 1.7%	5,933– 1.5%	6,044– 1.6%	5,284– 1.5%	4,766– 1.5%	3,788– 1.5%
5,011– 1.2%	4,507– 1.1%	3,959– 1.1%	3,904– 1.1%	3,539– 1.2%	2,592– 1.0%
2,947– 0.7%	2,130– 0.5%	2,685– 0.7%	2,702– 0.8%	2,174– 0.7%	1,559– 0.6%
1,626– 0.4%	1,685– 0.4%	1,287– 0.4%	1,111– 0.3%	1,018– 0.3%	686– 0.3%
1,651– 0.4%	1,647– 0.4%	1,574– 0.4%	1,905– 0.6%	1,592– 0.5%	1,556– 0.6%
5,239– 1.2%	5,365– 1.3%	3,972– 1.1%	3,793– 1.1%	3,299– 1.1%	1,993– 0.8%
3,878– 0.9%	3,431– 0.8%	3,229– 0.9%	3,316– 1.0%	2,842– 0.9%	2,297– 0.9%
299– 0.1%	564– 0.1%	379– 0.1%	872– 0.3%	597– 0.2%	523– 0.2%
1,280– 0.3%	1,323– 0.3%	1,399– 0.4%	1,297– 0.4%	1,242– 0.4%	1,185– 0.5%
10,250– 2.4%	11,160– 2.7%	10,172– 2.7%	8,310– 2.4%	8,435– 2.7%	8,377– 3.3%
10.8%	10.6%	10.7%	10.8%	10.8%	10.8%
$137,383– 32.3%	$128,647– 31.4%	$117,038– 31.2%	$111,228– 32.2%	$101,779– 32.6%	$ 85,600– 34.0%
$ 7,731– 1.9%	$ 12,268– 3.0%	$ 12,073– 3.2%	$ 10,316– 3.0%	$ 11,245– 3.6%	$ 11,996– 4.8%
26,108– 6.1%	24,651– 6.0%	23,339– 6.2%	24,324– 7.0%	24,137– 7.7%	23,808– 9.5%
$ 33,839– 8.0%	$ 36,919– 9.0%	$ 35,412– 9.4%	$ 34,640– 10.0%	$ 35,382– 11.3%	$ 35,804– 14.3%
$ 23,674– 13.1%	$ 22,326– 11.5%	$ 21,814– 11.1%	$ 23,384– 11.8%	$ 23,115– 11.1%	$ 23,709– 11.2%
55,458– 22.7%	47,619– 22.2%	40,032– 22.4%	34,546– 23.5%	26,070– 24.9%	8,634– 22.2%
$ 79,132– 18.6%	$ 69,945– 17.1%	$ 61,846– 16.5%	$ 57,930– 16.8%	$ 49,185– 15.8%	$ 32,343– 12.9%
3.6 times	4.0 times	4.1 times	4.0 times	4.2 times	4.9 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
368 $488.65	360 $541.89	390 $509.22	344 $578.49	386 $537.81	421 $508.36
2,502 97.32	2,549 84.51	2,287 78.60	2,117 69.67	1,626 64.53	749 53.63
2,870 147.50	2,909 141.15	2,677 141.37	2,461 140.70	2,012 155.35	1,170 217.18
$7.62	$8.73	$9.03	$8.48	$8.97	$8.96
4.41	4.51	4.46	4.26	4.02	4.51
$0.098	$0.175	$0.195	$0.178	$0.229	$0.371
12,325– 48.3%	13,647– 51.3%	12,987– 47.4%	13,428– 47.9%	14,053– 48.1%	14,776– 51.5%
13,174– 51.7%	12,963– 48.7%	14,386– 52.6%	14,626– 52.1%	15,164– 51.9%	13,936– 48.5%
25,499–100.0%	26,610–100.0%	27,373–100.0%	28,054–100.0%	29,217–100.0%	28,712–100.0%
$7.07	$7.32	$7.20	$7.07	$7.10	$7.40
68 hours	67 hours	66 hours	64 hours	61 hours	54 hours
48 hours	47 hours	48 hours	46 hours	46 hours	43 hours
45 hours	44 hours	42 hours	35 hours	29 hours	25 hours

Table 9 *Prescription trends in LILLY DIGEST pharmacies*

Year	Averages per Pharmacy: Prescription Sales	Percentage of Prescription Sales to Total Sales	Number of Prescriptions	Percent Renewals	Prescription Charge	Prescription Inventory	Prescription Sales per Dollar of Prescription Inventory
1960	$ 47,825	34.6%	14,972	49.3%	$3.19	$ 8,090	$5.91
1961	49,144	35.3%	15,135	51.1%	3.25	8,400	5.85
1962	52,578	36.0%	15,817	52.1%	3.32	8,620	6.10
1963	58,688	38.3%	17,320	52.0%	3.39	9,270	6.33
1964	63,157	39.0%	18,532	53.7%	3.41	9,495	6.65
1965	68,587	40.9%	19,708	53.7%	3.48	9,928	6.91
1966	71,586	41.0%	19,962	53.6%	3.59	10,235	6.99
1967	78,789	41.8%	21,544	54.5%	3.66	10,881	7.24
1968	85,953	43.2%	22,848	54.8%	3.76	11,478	7.49
1969	93,299	43.7%	23,951	54.5%	3.90	12,220	7.63
1970	98,445	44.5%	24,243	54.8%	4.06	12,592	7.82
1971	105,875	44.7%	25,122	54.9%	4.21	13,268	7.98
1972	112,777	46.6%	25,743	54.1%	4.38	13,969	8.07
1973	122,615	47.3%	27,019	54.5%	4.54	14,827	8.27
1974	130,384	47.9%	27,089	53.7%	4.81	15,925	8.19
1975	142,915	48.6%	27,572	53.0%	5.18	17,342	8.24
1976	153,735	49.6%	27,163	52.7%	5.66	18,554	8.29
1977	162,631	50.4%	26,649	51.5%	6.10	19,471	8.35
1978	176,705	51.2%	26,913	51.6%	6.57	21,133	8.36
1979	195,159	49.8%	27,187	50.3%	7.18	22,941	8.51

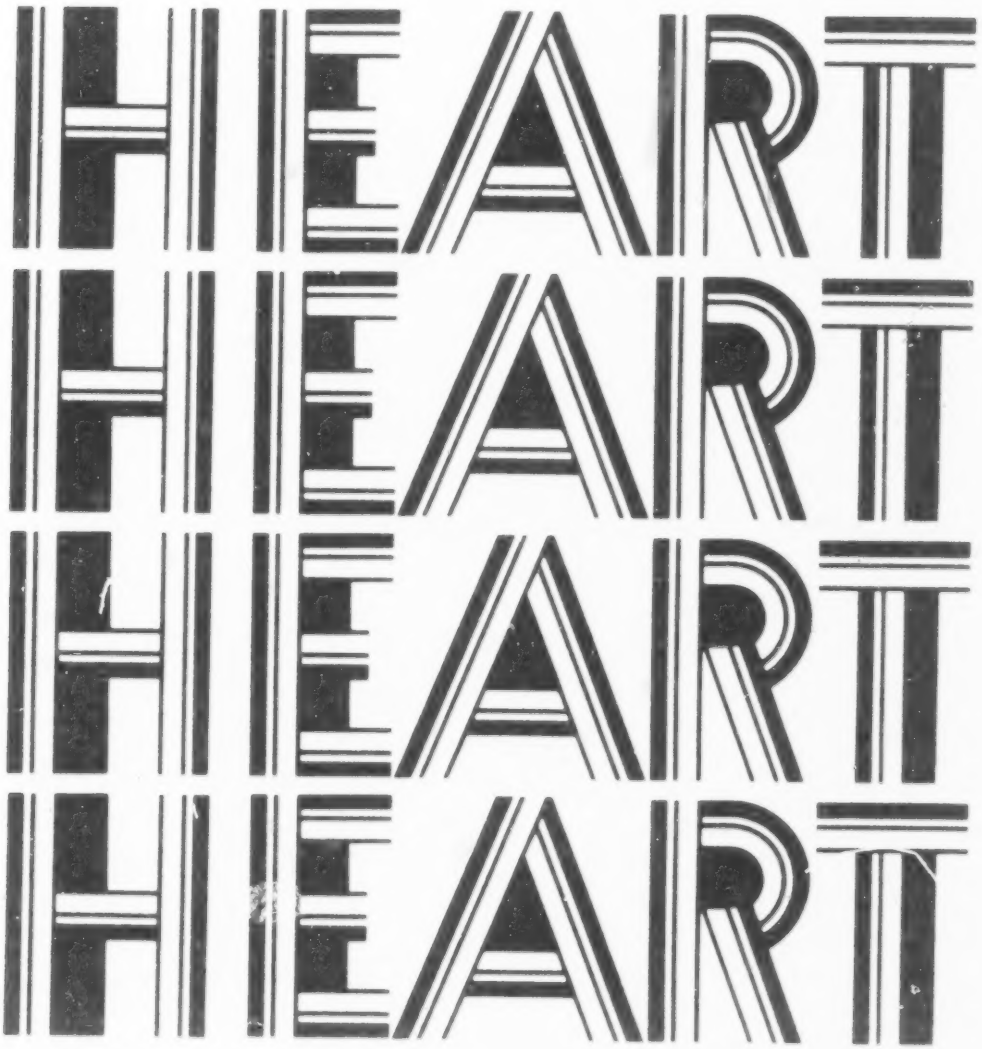
Twenty Years of Prescription Department Data—Over the past two decades, prescription sales have steadily advanced as a percent of total sales except for the operating year 1979, when this percentage fell slightly below the previous year's recorded level. In spite of the reversal of this ratio, prescription revenue and the number of prescriptions dispensed as well as the prescription sales per dollar of prescription inventory attained new record-high levels, as shown in Table 9. Renewed prescriptions again took a lower share of all prescriptions. This downtrend may be a result of expanding government and private prescription programs and or stricter laws governing renewal prescriptions. The ratio of new to renewed prescriptions dispensed changed significantly during 1979 and should be monitored closely in the future to determine any changing prescribing patterns.

Prescription inventories have risen dollarwise since 1960; however, prescription sales per dollar of prescription inventory for the same period have been increasing steadily, and this suggests a general upward trend in sales productivity per inventory dollar. This reflects a faster growth in prescription sales in relation to prescription inventory.

The $8.51 in prescription sales for each dollar invested in prescription inventory during 1979 can be contrasted with a return of $4.78 on nonprescription inventory; this supports the fact that prescription inventory continues to be more productive than nonprescription merchandise and further emphasizes the major revenue-generating role of the prescription area within the average pharmacy.

THE HEART OF THE LILLY DIGEST

This section contains 28 categories of averages arranged according to both annual sales volume and daily prescription activity (Tables 10 through 15). A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures. Page 55 contains a work sheet that may be useful for this purpose.



HEART

Averages per Pharmacy

Sales
- Prescription
- Other
- Total

Cost of goods sold

Gross margin

Expenses
- Proprietor's or manager's salary
- Employees' wages
- Rent
- Heat, light, and power
- Accounting, legal, and other professional fees
- Taxes (except on buildings, income, and profit) and licenses
- Insurance (except on buildings)
- Interest paid
- Repairs
- Delivery
- Advertising
- Depreciation (except on buildings)
- Bad debts charged off
- Telephone
- Miscellaneous

Total expenses

Net profit (before taxes)

Add proprietor's withdrawals

Total income of self-employed proprietor (before taxes on income and profits)

Value of inventory at c[illegible]nd as a percent of sales
- Prescription
- Other
- Total

Annual rate of turnover of inventory

Size of area and sales per square foot*
- Prescription
- Other
- Total

Sales per dollar invested in inventory
- Prescription
- Other

Net profit per dollar invested in inventory

Number of prescriptions dispensed
- New
- Renewed
- Total

Prescription charge

Number of hours per week
- Pharmacy was open
- Worked by proprietor
- Worked by employed pharmacist(s)

*Based on averages of pharmacies that reported all data

Find and Compare

Table 10

Sales under $150,000

Total Sales	Total Sales
Under $100,000	$100,000-$150,000
(48 Pharmacies)	(110 Pharmacies)
$56,746– 70.8%	$ 91,337– 70.6%
23,396– 29.2%	38,011– 29.4%
$80,142–100.0%	$129,348–100.0%
49,651– 62.0%	81,804– 63.2%
$30,491– 38.0%	$ 47,544– 36.8%
$12,870– 16.1%	$ 16,737– 12.9%
4,267– 5.3%	8,510– 6.6%
3,691– 4.6%	4,592– 3.6%
883– 1.1%	1,256– 1.0%
499– 0.6%	772– 0.6%
1,003– 1.3%	1,708– 1.3%
794– 1.0%	1,365– 1.1%
1,276– 1.6%	1,604– 1.2%
209– 0.3%	547– 0.4%
583– 0.7%	811– 0.6%
1,081– 1.3%	1,512– 1.2%
1,003– 1.3%	1,518– 1.2%
88– 0.1%	157– 0.1%
654– 0.8%	835– 0.6%
1,935– 2.4%	3,400– 2.6%
12.5%	11.9%
$30,836– 38.5%	$ 45,324– 35.0%
($ 345)– (0.5%)	$ 2,200– 1.8%
12,870– 16.1%	16,737– 12.9%
$12,525– 15.6%	$ 18,957– 14.7%
$10,794– 19.0%	$ 14,589– 16.0%
6,837– 29.2%	10,897– 28.7%
$17,631– 22.0%	$ 25,486– 19.7%
2.9 times	3.3 times
sq. ft.	sq. ft.
314 $178.72	325 $279.62
762 31.90	871 44.54
1,076 74.70	1,196 108.48
$5.26	$6.26
3.42	3.49
($0.020)	$0.090
4,541– 57.7%	6,354– 49.0%
3,331– 42.3%	6,624– 51.0%
7,872–100.0%	12,978–100.0%
$7.21	$7.04
49 hours	53 hours
45 hours	47 hours
5 hours	11 hours

Averages per Pharmacy	Total Sales $150,000-$200,000 Under 50 Prescriptions Daily (112 Pharmacies)	
Sales		
Prescription	$ 98,456	56.1%
Other	76,990	43.9%
Total	$175,446	100.0%
Cost of goods sold	111,347	63.5%
Gross margin	$ 64,099	36.5%
Expenses		
Proprietor's or manager's salary	$ 18,967	10.8%
Employees' wages	14,658	8.4%
Rent	4,874	2.8%
Heat, light, and power	1,919	1.1%
Accounting, legal, and other professional fees	993	0.6%
Taxes (except on buildings, income, and profit) and licenses	2,427	1.4%
Insurance (except on buildings)	2,049	1.1%
Interest paid	1,839	1.0%
Repairs	642	0.4%
Delivery	1,160	0.7%
Advertising	2,114	1.2%
Depreciation(except on buildings)	1,858	1.0%
Bad debts charged off	206	0.1%
Telephone	840	0.5%
Miscellaneous	4,654	2.6%
		11.7%
Total expenses	$ 59,200	33.7%
Net profit (before taxes)	$ 4,899	2.8%
Add proprietor's withdrawals	18,967	10.8%
Total income of self-employed proprietor (before taxes on income and profits)	$ 23,866	13.6%
Value of inventory at cost and as a percent of sales		
Prescription	$ 14,703	14.9%
Other	21,961	28.5%
Total	$ 36,664	20.9%
Annual rate of turnover of inventory	3.1 times	
Size of area and sales per square foot*	sq. ft.	
Prescription	311	$314.24
Other	1,417	54.61
Total	1,728	101.30
Sales per dollar invested in inventory		
Prescription	$6.70	
Other	3.51	
Net profit per dollar invested in inventory	$0.130	
Number of prescriptions dispensed		
New	5,977	47.3%
Renewed	6,651	52.7%
Total	12,628	100.0%
Prescription charge	$7.80	
Number of hours per week		
Pharmacy was open	58 hours	
Worked by proprietor	53 hours	
Worked by employed pharmacist(s)	12 hours	

*Based on averages of pharmacies that reported all data

Find and Compare

Table 11

Sales $150,000—$250,000

Total Sales $200,000-$250,000	Over 50 Prescriptions Daily (59 Pharmacies)	Under 50 Prescriptions Daily (67 Pharmacies)	Over 50 Prescriptions Daily (106 Pharmacies)
	$146,308— 81.4%	$106,029— 47.9%	$161,234— 71.5%
	33,462— 18.6%	115,263— 52.1%	64,222— 28.5%
	$179,770—100.0%	$221,292—100.0%	$225,456—100.0%
	111,742— 62.2%	145,101— 65.6%	142,469— 63.2%
	$ 68,028— 37.8%	$ 76,191— 34.4%	$ 82,987— 36.8%
	$ 22,547— 12.5%	$ 20,019— 9.0%	$ 22,841— 10.1%
	13,473— 7.5%	20,975— 9.5%	20,062— 8.9%
	5,946— 3.3%	5,265— 2.4%	5,993— 2.7%
	1,351— 0.8%	2,226— 1.0%	1,825— 0.8%
	821— 0.4%	1,039— 0.5%	1,472— 0.7%
	2,187— 1.2%	3,072— 1.4%	3,082— 1.4%
	1,768— 1.0%	2,620— 1.2%	2,364— 1.0%
	1,685— 0.9%	1,969— 0.9%	1,890— 0.8%
	559— 0.3%	733— 0.3%	693— 0.3%
	1,246— 0.7%	1,004— 0.4%	1,192— 0.5%
	1,392— 0.8%	2,670— 1.2%	2,269— 1.0%
	2,058— 1.1%	2,363— 1.1%	2,380— 1.1%
	327— 0.2%	164— 0.1%	381— 0.2%
	1,006— 0.6%	816— 0.3%	1,142— 0.5%
	3,995— 2.2%	4,018— 1.8%	5,942— 2.6%
	10.2%	10.2%	10.9%
	$ 60,361— 33.5%	$ 68,953— 31.1%	$ 73,528— 32.6%
	$ 7,667— 4.3%	$ 7,238— 3.3%	$ 9,459— 4.2%
	22,547— 12.5%	20,019— 9.0%	22,841— 10.1%
	$ 30,214— 16.8%	$ 27,257— 12.3%	$ 32,300— 14.3%
	$ 18,144— 12.4%	$ 16,393— 15.5%	$ 20,582— 12.8%
	8,749— 26.1%	27,105— 23.5%	16,180— 25.2%
	$ 26,893— 15.0%	$ 43,498— 19.7%	$ 36,762— 16.3%
	4.3 times	3.4 times	4.0 times
sq. ft.		sq. ft.	sq. ft.
345	$418.42	287 $365.34	389 $415.75
757	49.25	1,670 69.74	1,232 52.03
1,102	164.76	1,957 113.10	1,621 139.26
	$8.06	$6.47	$7.83
	3.82	4.25	3.97
	$0.290	$0.170	$0.260
	11,505— 53.2%	6,588— 47.2%	11,657— 50.3%
	10,137— 46.8%	7,383— 52.8%	11,517— 49.7%
	21,642—100.0%	13,971—100.0%	23,174—100.0%
	$6.76	$7.59	$6.96
	53 hours	59 hours	58 hours
	47 hours	52 hours	49 hours
	12 hours	17 hours	19 hours

Averages per Pharmacy	Total Sales $250,000-$300,000 Under 50 Prescriptions Daily (41 Pharmacies)	50 to 75 Prescriptions Daily (88 Pharmacies)	Over 75 Prescriptions Daily (47 Pharmacies)
Sales			
Prescription	$108,145— 39.6%	$168,232— 61.4%	$218,003— 78.4%
Other	165,016— 60.4%	105,625— 38.6%	59,939— 21.6%
Total	$273,161—100.0%	$273,857—100.0%	$277,942—100.0%
Cost of goods sold	180,757— 66.2%	175,732— 64.2%	172,320— 62.0%
Gross margin	$ 92,404— 33.8%	$ 98,125— 35.8%	$105,622— 38.0%
Expenses			
Proprietor's or manager's salary	$ 22,764— 8.3%	$ 23,948— 8.7%	$ 21,462— 7.7%
Employees' wages	27,019— 9.9%	29,270— 10.7%	34,049— 12.3%
Rent	7,971— 2.9%	5,590— 2.0%	6,808— 2.4%
Heat, light, and power	2,804— 1.0%	2,607— 1.0%	1,773— 0.6%
Accounting, legal, and other professional fees	1,506— 0.6%	1,415— 0.5%	2,245— 0.8%
Taxes (except on buildings, income, and profit) and licenses	3,613— 1.3%	4,372— 1.6%	4,967— 1.8%
Insurance (except on buildings)	2,883— 1.1%	3,161— 1.2%	3,260— 1.2%
Interest paid	3,660— 1.4%	2,257— 0.8%	1,757— 0.6%
Repairs	888— 0.3%	835— 0.3%	759— 0.3%
Delivery	1,157— 0.4%	1,205— 0.4%	1,405— 0.5%
Advertising	3,539— 1.3%	2,862— 1.1%	2,556— 0.9%
Depreciation (except on buildings)	3,329— 1.2%	2,779— 1.0%	2,864— 1.0%
Bad debts charged off	375— 0.1%	760— 0.3%	955— 0.4%
Telephone	1,025— 0.4%	1,151— 0.4%	1,209— 0.5%
Miscellaneous	6,817— 2.5%	6,671— 2.4%	8,388— 3.0%
	11.6%	11.0%	11.6%
Total expense	$ 89,350— 32.7%	$ 88,883— 32.4%	$ 94,457— 34.0%
Net profit (before taxes)	$ 3,054— 1.1%	$ 9,242— 3.4%	$ 11,165— 4.0%
Add proprietor's withdrawals	22,764— 8.3%	23,948— 8.7%	21,462— 7.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 25,818— 9.4%	$ 33,190— 12.1%	$ 32,627— 11.7%
Value of inventory at cost and as a percent of sales			
Prescription	$ 16,195— 15.0%	$ 19,481— 11.6%	$ 25,586— 11.7%
Other	41,321— 25.0%	26,485— 25.1%	15,539— 25.9%
Total	$ 57,516— 21.1%	$ 45,966— 16.8%	$ 41,125— 14.8%
Annual rate of turnover of inventory	3.2 times	3.9 times	4.3 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	297 $360.26	341 $4[illegible]0.68	425 $504.20
Other	2,272 73.16	1,691 63.07	957 65.83
Total	2,569 106.37	2,032 134.73	1,382 200.75
Sales per dollar invested in inventory			
Prescription	$6.68	$8.64	$8.52
Other	3.99	3.99	3.86
Net profit per dollar invested in inventory	$0.050	$0.200	$0.270
Number of prescriptions dispensed			
New	7,273— 51.0%	10,882— 47.8%	16,397— 50.7%
Renewed	6,992— 49.0%	11,875— 52.2%	15,967— 49.3%
Total	14,265—100.0%	22,757—100.0%	32,364—100.0%
Prescription charge	$7.58	$7.39	$6.74
Number of hours per week			
Pharmacy was open	61 hours	61 hours	57 hours
Worked by proprietor	52 hours	48 hours	47 hours
Worked by employed pharmacist(s)	19 hours	30 hours	37 hours

*Based on averages of pharmacies that reported all data

Find and Compare

Table 19

Total Sales
$300,000-$350,000

Sales
$250,000—$350,000

Under 50 Prescriptions Daily (25 Pharmacies)	50 to 75 Prescriptions Daily (50 Pharmacies)	75 to 100 Prescriptions Daily (35 Pharmacies)	Over 100 Prescriptions Daily (29 Pharmacies)
$113,043— 34.9%	$167,284— 51.7%	$219,450— 67.4%	$265,057— 81.5%
211,136— 65.1%	156,309— 48.3%	106,105— 32.6%	60,253— 18.5%
$324,179—100.0%	$323,593—100.0%	$325,555—100.0%	$325,310—100.0%
213,697— 65.9%	206,520— 63.8%	208,813— 64.1%	204,482— 62.9%
$110,482— 34.1%	$117,073— 36.2%	$116,742— 35.9%	$120,828— 37.1%
$ 21,270— 6.6%	$ 22,576— 7.0%	$ 23,810— 7.3%	$ 29,964— 9.2%
34,510— 10.6%	42,886— 13.3%	36,724— 11.3%	36,887— 11.3%
10,006— 3.1%	6,646— 2.1%	6,284— 1.9%	8,821— 2.7%
4,097— 1.3%	3,346— 1.0%	2,290— 0.7%	1,468— 0.5%
1,731— 0.5%	1,608— 0.5%	1,671— 0.5%	1,455— 0.4%
5,047— 1.6%	5,751— 1.8%	6,062— 1.9%	5,055— 1.6%
3,937— 1.2%	3,888— 1.2%	3,605— 1.1%	3,242— 1.0%
3,075— 0.9%	2,282— 0.7%	1,733— 0.5%	1,329— 0.4%
1,540— 0.5%	1,625— 0.5%	1,160— 0.4%	613— 0.2%
1,124— 0.4%	1,820— 0.6%	1,797— 0.6%	1,994— 0.6%
4,440— 1.4%	3,720— 1.1%	2,737— 0.8%	2,474— 0.8%
2,900— 0.9%	3,091— 0.9%	2,279— 0.7%	2,849— 0.9%
454— 0.1%	607— 0.2%	393— 0.1%	478— 0.1%
1,238— 0.4%	1,471— 0.4%	1,161— 0.4%	1,401— 0.4%
7,149— 2.2%	8,321— 2.6%	8,342— 2.6%	10,299— 3.2%
11.4%	11.5%	10.3%	10.1%
$102,518— 31.7%	$109,638— 33.9%	$100,048— 30.8%	$108,329— 33.3%
$ 7,964— 2.4%	$ 7,435— 2.3%	$ 16,694— 5.1%	$ 12,499— 3.8%
21,270— 6.6%	22,576— 7.0%	23,810— 7.3%	29,964— 9.2%
$ 29,234— 9.0%	$ 30,011— 9.3%	$ 40,504— 12.4%	$ 42,463— 13.0%
$ 18,562— 16.4%	$ 20,248— 12.1%	$ 26,426— 12.0%	$ 29,418— 11.1%
51,241— 24.3%	37,094— 23.7%	22,361— 21.1%	9,839— 16.3%
$ 69,803— 21.5%	$ 57,342— 17.7%	$ 48,787— 15.0%	$ 39,257— 12.1%
3.1 times	3.7 times	4.4 times	5.3 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
315 $355.75	306 $551.57	337 $654.02	480 $544.32
2,866 74.18	2,120 72.75	1,559 67.28	714 89.99
3,181 102.02	2,426 133.21	1,896 171.55	1,194 272.41
$6.09	$8.26	$8.30	$9.01
4.12	4.21	4.75	6.12
$0.110	$0.130	$0.340	$0.320
7,295— 47.6%	10,024— 44.7%	15,226— 49.1%	18,946— 46.3%
8,032— 52.4%	12,380— 55.3%	15,771— 50.9%	21,955— 53.7%
15,327—100.0%	22,404—100.0%	30,997—100.0%	40,901—100.0%
$7.38	$7.47	$7.08	$6.48
67 hours	65 hours	61 hours	58 hours
53 hours	49 hours	49 hours	47 hours
41 hours	33 hours	26 hours	30 hours

Averages per Pharmacy	Total Sales $350,000-$400,000 Under 75 Prescriptions Daily (71 Pharmacies)	Over 75 Prescriptions Daily (51 Pharmacies)
Sales		
Prescription	$156,402— 42.1%	$249,994— 66.3%
Other	215,342— 57.9%	127,080— 33.7%
Total	$371,744—100.0%	$377,074—100.0%
Cost of goods sold	244,547— 65.8%	232,299— 61.6%
Gross margin	$127,197— 34.2%	$144,775— 38.4%
Expenses		
Proprietor's or manager's salary	$ 24,390— 6.6%	$ 28,399— 7.5%
Employees' wages	43,857— 11.8%	45,955— 12.2%
Rent	9,130— 2.5%	9,530— 2.5%
Heat, light, and power	4,205— 1.1%	2,889— 0.8%
Accounting, legal, and other professional fees	2,014— 0.5%	1,776— 0.5%
Taxes (except on buildings, income, and profit) and licenses	6,129— 1.6%	5,933— 1.6%
Insurance (except on buildings)	4,283— 1.2%	4,212— 1.1%
Interest paid	3,202— 0.9%	2,536— 0.7%
Repairs	1,453— 0.4%	1,362— 0.4%
Delivery	1,571— 0.4%	2,024— 0.5%
Advertising	4,116— 1.1%	3,426— 0.9%
Depreciation (except on buildings)	3,802— 1.0%	3,352— 0.9%
Bad debts charged off	365— 0.1%	1,420— 0.4%
Telephone	1,162— 0.3%	1,620— 0.4%
Miscellaneous	9,689— 2.6%	10,410— 2.7%
	11.2%	10.9%
Total expenses	$119,377— 32.1%	$124,844— 33.1%
Net profit (before taxes)	$ 7,820— 2.1%	$ 19,931— 5.3%
Add proprietor's withdrawals	24,390— 6.6%	28,399— 7.5%
Total income of self-employed proprietor (before taxes on income and profits)	$ 32,210— 8.7%	$ 48,330— 12.8%
Value of inventory at cost and as a percent of sales		
Prescription	$ 20,330— 13.0%	$ 25,917— 10.4%
Other	46,824— 21.7%	33,190— 26.1%
Total	$ 67,154— 18.1%	$ 59,107— 15.7%
Annual rate of turnover of inventory	3.8 times	4.1 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	364 $428.93	465 $537.94
Other	2,870 75.07	2,023 62.81
Total	3,234 114.87	2,488 151.55
Sales per dollar invested in inventory		
Prescription	$7.69	$9.65
Other	4.60	3.83
Net profit per dollar invested in inventory	$0.120	$0.340
Number of prescriptions dispensed		
New	9,879— 48.1%	18,574— 52.2%
Renewed	10,647— 51.9%	17,011— 47.8%
Total	20,526—100.0%	35,585—100.0%
Prescription charge	$7.62	$7.03
Number of hours per week		
Pharmacy was open	68 hours	61 hours
Worked by proprietor	49 hours	47 hours
Worked by employed pharmacist(s)	43 hours	36 hours

*Based on averages of pharmacies that reported all data

Find and Compare

Table 13

Total Sales
$400,000-$500,000

Sales $350,000—$500,000

Under 75 Prescriptions Daily (55 Pharmacies)	75 to 100 Prescriptions Daily (54 Pharmacies)	100 to 125 Prescriptions Daily (35 Pharmacies)	Over 125 Prescriptions Daily (45 Pharmacies)
$155,610— 34.7%	$224,984— 50.4%	$286,538— 63.8%	$340,658— 73.4%
292,295— 65.3%	221,295— 49.6%	162,638— 36.2%	123,587— 26.6%
$447,905—100.0%	$446,279—100.0%	$449,176—100.0%	$464,245—100.0%
294,765— 65.8%	291,836— 65.4%	283,474— 63.1%	289,372— 62.3%
$153,140— 34.2%	$154,443— 34.6%	$165,702— 36.9%	$174,873— 37.7%
$ 26,465— 5.9%	$ 28,000— 6.3%	$ 26,595— 5.9%	$ 31,596— 6.8%
56,393— 12.6%	58,993— 13.2%	58,594— 13.0%	61,096— 13.2%
11,197— 2.5%	10,668— 2.4%	12,346— 2.7%	9,965— 2.1%
4,634— 1.0%	4,222— 0.9%	3,149— 0.7%	2,535— 0.5%
2,287— 0.5%	1,838— 0.4%	2,174— 0.5%	1,854— 0.4%
6,525— 1.5%	6,087— 1.4%	6,492— 1.5%	7,497— 1.6%
5,235— 1.2%	4,962— 1.1%	4,976— 1.1%	4,223— 0.9%
3,399— 0.8%	1,897— 0.4%	2,028— 0.5%	2,115— 0.5%
1,444— 0.3%	1,763— 0.4%	1,113— 0.3%	1,157— 0.2%
1,237— 0.3%	1,940— 0.4%	1,962— 0.4%	2,159— 0.5%
5,823— 1.3%	4,557— 1.0%	4,537— 1.0%	5,010— 1.1%
4,033— 0.9%	2,872— 0.7%	3,646— 0.8%	3,464— 0.8%
324— 0.1%	800— 0.2%	805— 0.2%	1,356— 0.3%
1,145— 0.2%	1,435— 0.3%	1,485— 0.3%	1,706— 0.4%
9,893— 2.2%	11,565— 2.6%	13,332— 3.0%	16,206— 3.5%
10.3%	9.8%	10.3%	10.7%
$140,034— 31.3%	$141,599— 31.7%	$143,234— 31.9%	$151,939— 32.8%
$ 13,106— 2.9%	$ 12,844— 2.9%	$ 22,468— 5.0%	$ 22,934— 4.9%
26,465— 5.9%	28,000— 6.3%	26,595— 5.9%	31,596— 6.8%
$ 39,571— 8.8%	$ 40,844— 9.2%	$ 49,063— 10.9%	$ 54,530— 11.7%
$ 21,223— 13.6%	$ 26,410— 11.7%	$ 28,319— 9.9%	$ 33,666— 9.9%
67,320— 23.0%	46,519— 21.0%	34,619— 21.3%	26,028— 21.1%
$ 88,543— 19.8%	$ 72,929— 16.3%	$ 62,938— 14.0%	$ 59,694— 12.9%
3.5 times	4.1 times	4.6 times	5.0 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
338 $468.51	372 $609.86	493 $578.40	430 $796.74
3,212 90.03	2,648 82.93	1,864 88.48	1,372 87.41
3,550 126.06	3,020 147.77	2,357 190.92	1,802 256.76
$7.33	$8.52	$10.12	$10.12
4.34	4.76	4.70	4.75
$0.150	$0.180	$0.360	$0.380
10,306— 51.5%	15,173— 49.3%	20,225— 49.7%	25,225— 47.9%
9,706— 48.5%	15,599— 50.7%	20,478— 50.3%	27,432— 52.1%
20,012—100.0%	30,772—100.0%	40,703—100.0%	52,657—100.0%
$7.78	$7.31	$7.04	$6.47
71 hours	69 hours	65 hours	64 hours
48 hours	48 hours	48 hours	46 hours
47 hours	50 hours	52 hours	55 hours

Averages per Pharmacy	Total Sales $500,000-$600,000 Under 75 Prescriptions Daily (28 Pharmacies)		75 to 100 Prescriptions Daily (35 Pharmacies)	
Sales				
Prescription	$169,854	30.6%	$237,058	43.6%
Other	384,629	69.4%	307,256	56.4%
Total	$554,483	100.0%	$544,314	100.0%
Cost of goods sold	368,887	66.5%	361,746	66.5%
Gross margin	$185,596	33.5%	$182,568	33.5%
Expenses				
Proprietor's or manager's salary	$ 31,031	5.6%	$ 30,725	5.6%
Employees' wages	67,897	12.2%	63,851	11.7%
Rent	14,618	2.6%	12,930	2.4%
Heat, light, and power	4,364	0.8%	4,055	0.7%
Accounting, legal, and other professional fees	2,565	0.5%	1,646	0.3%
Taxes (except on buildings, income, and profit) and licenses	7,780	1.4%	9,051	1.7%
Insurance (except on buildings)	6,721	1.2%	6,214	1.1%
Interest paid	3,843	0.7%	3,758	0.7%
Repairs	1,982	0.4%	2,022	0.4%
Delivery	2,121	0.4%	2,009	0.4%
Advertising	6,646	1.2%	5,393	1.0%
Depreciation (except on buildings)	5,218	0.9%	4,907	0.9%
Bad debts charged off	836	0.2%	535	0.1%
Telephone	1,805	0.3%	1,586	0.3%
Miscellaneous	13,977	2.5%	13,680	2.5%
	10.5%		10.1%	
Total expenses	$171,404	30.9%	$162,362	29.8%
Net profit (before taxes)	$ 14,192	2.6%	$ 20,206	3.7%
Add proprietor's withdrawals	31,031	5.6%	30,725	5.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 45,223	8.2%	$ 50,931	9.3%
Value of inventory at cost and as a percent of sales				
Prescription	$ 22,608	13.3%	$ 26,642	11.2%
Other	68,531	17.8%	55,451	18.0%
Total	$ 91,139	16.4%	$ 82,093	15.1%
Annual rate of turnover of inventory	4.2 times		4.5 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	348	$492.65	415	$572.05
Other	3,220	119.01	2,807	109.13
Total	3,568	155.40	3,222	168.68
Sales per dollar invested in inventory				
Prescription		$7.51		$8.90
Other		5.61		5.54
Net profit per dollar invested in inventory		$0.160		$0.250
Number of prescriptions dispensed				
New	9,929	48.3%	15,124	49.0%
Renewed	10,608	51.7%	15,729	51.0%
Total	20,537	100.0%	30,853	100.0%
Prescription charge		$8.27		$7.68
Number of hours per week				
Pharmacy was open		71 hours		73 hours
Worked by proprietor		50 hours		47 hours
Worked by employed pharmacist(s)		52 hours		49 hours

*Based on averages of pharmacies that reported all data

Find and Compare

Table 4

Sales $500,000–$750,000

Total Sales

$600,000-$750,000

100 to 125 Prescriptions Daily (26 Pharmacies)	Over 125 Prescriptions Daily (28 Pharmacies)	Under 100 Prescriptions Daily (52 Pharmacies)	Over 100 Prescriptions Daily (41 Pharmacies)
$304,695– 57.1%	$368,033– 67.8%	$198,682– 29.6%	$349,801– 52.3%
229,017– 42.9%	175,013– 32.2%	473,365– 70.4%	318,623– 47.7%
$533,712–100.0%	$543,046–100.0%	$672,047–100.0%	$668,424–100.0%
348,699– 65.3%	352,905– 65.0%	459,881– 68.4%	440,580– 65.9%
$185,013– 34.7%	$190,141– 35.0%	$212,166– 31.6%	$227,844– 34.1%
$ 28,351– 5.3%	$ 36,253– 6.7%	$ 31,143– 4.6%	$ 32,099– 4.8%
69,865– 13.1%	69,983– 12.9%	85,033– 12.7%	95,014– 14.2%
11,173– 2.1%	14,698– 2.7%	19,769– 2.9%	16,203– 2.4%
4,686– 0.9%	3,613– 0.7%	6,185– 0.9%	5,368– 0.8%
2,500– 0.5%	2,402– 0.4%	2,805– 0.4%	2,155– 0.3%
8,739– 1.6%	8,220– 1.5%	10,297– 1.5%	9,979– 1.5%
5,418– 1.0%	5,832– 1.1%	6,998– 1.1%	7,083– 1.1%
2,077– 0.4%	2,401– 0.4%	3,951– 0.6%	3,039– 0.4%
1,798– 0.3%	1,755– 0.3%	2,250– 0.3%	2,167– 0.3%
2,966– 0.6%	2,335– 0.4%	2,152– 0.3%	3,221– 0.5%
7,482– 1.4%	5,682– 1.0%	8,787– 1.3%	7,153– 1.1%
4,351– 0.8%	4,325– 0.8%	5,172– 0.8%	5,153– 0.8%
918– 0.2%	476– 0.1%	323– 0.1%	454– 0.1%
1,584– 0.3%	1,499– 0.3%	1,601– 0.2%	2,041– 0.3%
14,492– 2.7%	14,433– 2.7%	14,737– 2.2%	17,822– 2.7%
10.7%	9.7%	9.7%	9.9%
$166,400– 31.2%	$173,907– 32.0%	$201,203– 29.9%	$208,951– 31.3%
$ 18,613– 3.5%	$ 16,234– 3.0%	$ 10,963– 1.7%	$ 18,893– 2.8%
28,351– 5.3%	36,253– 6.7%	31,143– 4.6%	32,099– 4.8%
$ 46,964– 8.8%	$ 52,487– 9.7%	$ 42,106– 6.3%	$ 50,992– 7.6%
$ 26,791– 8.8%	$ 37,342– 10.1%	$ 23,337– 11.7%	$ 33,648– 9.6%
54,946– 24.0%	33,263– 19.0%	92,931– 19.6%	66,224– 20.8%
$ 81,737– 15.3%	$ 70,605– 13.0%	$116,268– 17.3%	$ 99,872– 14.9%
4.5 times	5.2 times	4.1 times	4.6 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
444 $688.96	437 $842.94	376 $525.52	446 $783.68
2,837 79.87	1,697 103.10	4,538 104.29	3,616 88.55
3,281 162.21	2,134 254.46	4,914 136.49	4,062 164.93
$11.37	$9.86	$8.51	$10.40
4.17	5.26	5.09	4.81
$0.230	$0.230	$0.090	$0.190
19,218– 48.4%	26,732– 49.3%	13,687– 51.8%	24,155– 47.1%
20,517– 51.6%	27,480– 50.7%	12,720– 48.2%	27,085– 52.9%
39,735–100.0%	54,212–100.0%	26,407–100.0%	51,240–100.0%
$7.67	$6.79	$7.52	$6.83
70 hours	67 hours	74 hours	74 hours
47 hours	49 hours	47 hours	49 hours
63 hours	77 hours	67 hours	75 hours

Averages per Pharmacy	Total Sales Over $750,000 Under 100 Prescriptions Daily (34 Pharmacies)	
Sales		
Prescription	$ 208,690	20.4%
Other	816,371	79.6%
Total	$1,025,061	100.0%
Cost of goods sold	712,174	69.5%
Gross margin	$ 312,887	30.5%
Expenses		
Proprietor's or manager's salary	$ 37,597	3.7%
Employees' wages	129,324	12.6%
Rent	27,295	2.7%
Heat, light, and power	9,125	0.9%
Accounting, legal, and other professional fees	5,026	0.5%
Taxes (except on buildings, income, and profit) and licenses	14,734	1.4%
Insurance (except on buildings)	9,398	0.9%
Interest paid	4,703	0.5%
Repairs	4,460	0.4%
Delivery	2,982	0.3%
Advertising	11,421	1.1%
Depreciation (except on buildings)	5,838	0.6%
Bad debts charged off	756	0.1%
Telephone	2,398	0.2%
Miscellaneous	29,899	2.9%
		9.8%
Total expenses	$ 294,956	28.8%
Net profit (before taxes)	$ 17,931	1.7%
Add proprietor's withdrawals	37,597	3.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 55,528	5.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 26,694	12.8%
Other	156,169	19.1%
Total	$ 182,863	17.8%
Annual rate of turnover of inventory		4.2 times
Size of area and sales per square foot*	sq. ft.	
Prescription	403	$518.34
Other	6,549	123.41
Total	6,952	146.28
Sales per dollar invested in inventory		
Prescription		$7.82
Other		5.23
Net profit per dollar invested in inventory		$0.100
Number of prescriptions dispensed		
New	14,794	56.0%
Renewed	11,641	44.0%
Total	26,435	100.0%
Prescription charge		$7.89
Number of hours per week		
Pharmacy was open		77 hours
Worked by proprietor		50 hours
Worked by employed pharmacist(s)		71 hours

*Based on averages of pharmacies that reported all data

Find and Compare

Table 15

Sales $750,000 and over

100 to 150 Prescriptions Daily (39 Pharmacies)	Over 150 Prescriptions Daily (47 Pharmacies)
$335,019— 33.9%	$ 549,801— 43.0%
654,254— 66.1%	729,467— 57.0%
$989,273—100.0%	$1,279,268—100.0%
678,583— 68.6%	879,243— 68.7%
$310,690— 31.4%	$ 400,025— 31.3%
$ 39,648— 4.0%	$ 40,629— 3.2%
123,606— 12.5%	179,310— 14.0%
22,543— 2.3%	26,145— 2.0%
8,075— 0.8%	7,504— 0.6%
3,207— 0.3%	4,453— 0.4%
12,378— 1.3%	19,317— 1.5%
10,490— 1.1%	12,808— 1.0%
5,989— 0.6%	5,843— 0.5%
3,679— 0.4%	3,754— 0.3%
1,815— 0.2%	4,413— 0.3%
15,948— 1.6%	13,252— 1.0%
8,163— 0.8%	8,528— 0.7%
1,010— 0.1%	1,787— 0.1%
2,393— 0.2%	3,966— 0.3%
29,114— 2.9%	35,268— 2.8%
10.3%	9.5%
$288,058— 29.1%	$ 366,977— 28.7%
$ 22,632— 2.3%	$ 33,048— 2.6%
39,648— 4.0%	40,629— 3.2%
$ 62,280— 6.3%	$ 73,677— 5.8%
$ 35,441— 10.6%	$ 51,856— 9.4%
114,008— 17.4%	124,035— 17.0%
$149,449— 15.1%	$ 175,891— 13.7%
4.7 times	5.3 times
sq. ft.	sq. ft.
588 $568.05	655 $843.85
4,967 127.72	4,685 143.65
5,555 174.35	5,340 229.58
$9.45	$10.60
5.74	5.88
$0.150	$0.190
23,399— 52.3%	40,321— 51.0%
21,303— 47.7%	38,733— 49.0%
44,702—100.0%	79,054—100.0%
$7.49	$6.95
78 hours	81 hours
46 hours	49 hours
91 hours	129 hours

Net Profit

A high level of pharmaceutical service can be maintained at the community pharmacy level only if sufficient profit is generated by the pharmacy. Profits are needed for working capital requirements, returns to investors, and retained earnings. If faced with continual losses, pharmacists must eventually borrow capital. Borrowing will result in a higher interest expense and even greater losses. As losses increase, borrowing will become more difficult, until lenders finally will refuse funds for these businesses. Without the required capital, either from lenders' or owner's investments, such pharmacies will eventually fail, and their services to the community will be lost.

Table 16 shows that 16 percent of all pharmacies reporting to the LILLY DIGEST operated at a loss, and an additional 21 percent realized a profit of less than 2 percent. These statistics were very similar to 1978 figures. At the other end of the profit range, 7 percent (in contrast to 10 percent in 1978) provided a net profit between 7.5 and 9.9 percent, and 12 percent of all pharmacies had a net profit amounting to 10 percent or more —the same as reported in 1978.

Table 16 *Net profit according to sales size*

	Under $100,000	$100,000-$150,000	$150,000-$200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$500,000	$500,000-$600,000	$600,000-$750,000	Over $750,000	This Year	Last Year
Number of Pharmacies	48	110	171	173	176	139	122	189	117	93	120	1,458	1,556
Net Profit as a Percent of Sales													
Operating at a loss	43%	24%	16%	15%	18%	14%	14%	15%	13%	15%	7%	16%	15%
Less than 2%	18%	20%	21%	19%	21%	24%	18%	18%	20%	30%	30%	21%	21%
2% to 5%	12%	27%	23%	30%	26%	29%	32%	29%	36%	32%	40%	29%	27%
5% to 7.5%	4%	12%	16%	13%	18%	11%	19%	13%	15%	19%	15%	15%	15%
7.5% to 10%	8%	3%	9%	13%	9%	8%	3%	8%	5%	2%	3%	7%	10%
10% and over	15%	14%	15%	10%	8%	14%	14%	17%	11%	2%	5%	12%	12%

Table 17 *Turnover comparison (percent of sales)*

	Fast Turnover (316 Pharmacies)	Slow Turnover (237 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	65.2%	63.6%
Gross margin	34.8%	36.4%
Employees' wages	10.3%	12.9%
Rent and miscellaneous expenses	12.9%	14.2%
Total expenses (less proprietor's salary)	23.2%	27.1%
Total income (proprietor's salary plus net profit)	11.6%	9.2%
Total inventory	10.5%	23.5%
Inventory turnover	6.2 times	2.7 times

Turnover—Table 17 presents some important operating statistics from a group of pharmacies with a high rate of inventory turnover and another group with a low rate. As pointed out in previous editions of the LILLY DIGEST, those with the high turnover rate carry smaller inventories that were purchased at somewhat higher prices, which lowers the gross margin in these pharmacies. However, the apparent benefits of a higher gross margin are more than offset by the lower costs associated with carrying a smaller inventory. Because of the greater savings on expenses, pharmacies with the fast turnover rate produced a higher total income. This table emphasizes what many pharmacists have come to appreciate: Fast turnover is associated with higher income.

Regional Variations

Geographic location has a marked effect on the operating statistics of pharmacies, as shown in Tables 18 and 19. It has been suggested that sales and expenses are influenced by regional factors, such as the cost of living, pharmacy manpower, the ratio of population to pharmacies, and, perhaps, state health programs.

As reported in previous issues of the DIGEST, the Pacific States recorded the highest average prescription charge (Table 18) and the highest total expense percentage (Table 19). The New England States showed the lowest net profit percentage. The largest net profit and lowest average prescription charge were reported by the East South Central States.

Rental expenditures ranged from a low of 2.1 percent in the New England States to a high of 3.2 percent in the Pacific States. All other areas reported rental figures in the 2.4 to 2.5 percent of sales range.

The greatest dollar change in average net profit from 1978 to 1979 occurred in the New England States (up over 15 percent), whereas the Middle Atlantic States posted the largest loss of net profit dollars (down more than 13 percent from the 1978 figure).

Table 19 is designed to show operating data for comparisons by region. However, it is recommended that a comparison be made not only according to geographic region but also that an analysis be performed on the basis of the appropriate table in the "Heart of the LILLY DIGEST."

Table 18 *Geographic summary of average prescription charge and net profit*

Geographic Region	Average Prescription Charge	Average Net Profit
New England States	$6.75	1.6%
Middle Atlantic States	6.67	2.3%
East North Central States	7.33	2.7%
West North Central States	7.31	3.5%
South Atlantic States	6.66	2.7%
East South Central States	6.53	4.4%
West South Central States	7.45	4.2%
Mountain States	7.70	3.0%
Pacific States	8.17	3.0%
LILLY DIGEST Average	7.18	3.0%

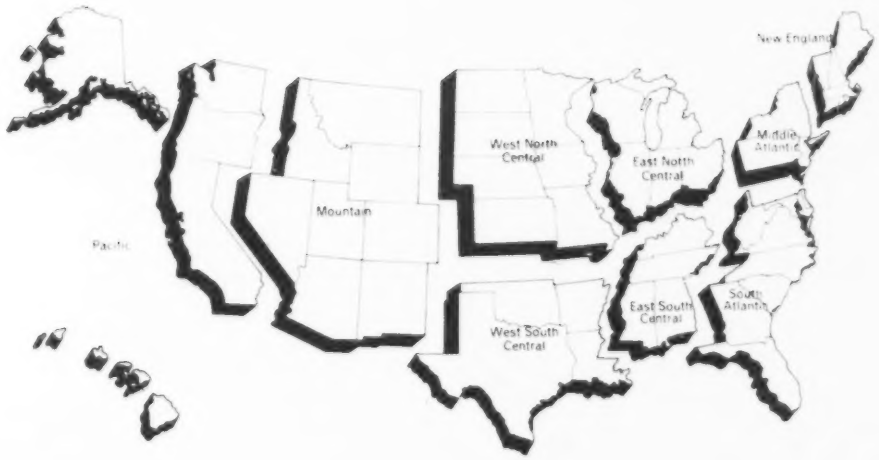


Table 19 *Summary by geographic regions in 1979*

Averages per Pharmacy	New England States (74 Pharmacies)	Middle Atlantic States (143 Pharmacies)	East North Central States (328 Pharmacies)	West North Central States (208 Pharmacies)
Sales				
Prescription	$200.979– 44.2%	$201.294– 48.3%	$206.272– 46.3%	$171.582– 50.7%
Other	253.765– 55.8%	215.063– 51.7%	239.367– 53.7%	166.778– 49.3%
Total	$454.744–100.0%	$416.357–100.0%	$445.639–100.0%	$338.360–100.0%
Cost of goods sold	304.723– 67.0%	278.212– 66.8%	299.510– 67.2%	221.757– 65.5%
Gross margin	$150.021– 33.0%	$138.145– 33.2%	$146.129– 32.8%	$116.603– 34.5%
Expenses				
Proprietor's and manager's salary	$ 25.887– 5.7%	$ 27.038– 6.5%	$ 26.005– 5.8%	$ 23.998– 7.1%
Employees' wages	59.938– 13.2%	51.918– 12.5%	51.993– 11.7%	36.182– 10.7%
Rent	9.519– 2.1%	9.916– 2.4%	10.512– 2.4%	8.510– 2.5%
Heat, light, and power	3.798– 0.8%	3.595– 0.9%	3.803– 0.9%	2.870– 0.9%
Accounting, legal, and other professional fees	1.951– 0.4%	1.732– 0.4%	1.963– 0.4%	1.602– 0.5%
Taxes (except on buildings, income, and profit) and licenses	7.156– 1.6%	5.968– 1.4%	6.670– 1.5%	3.909– 1.2%
Insurance (except on buildings)	6.198– 1.4%	5.025– 1.2%	4.346– 1.0%	3.146– 0.9%
Interest paid	2.696– 0.6%	2.089– 0.5%	3.070– 0.7%	2.605– 0.8%
Repairs	1.495– 0.3%	1.353– 0.3%	1.614– 0.4%	1.133– 0.3%
Delivery	2.208– 0.5%	2.290– 0.6%	1.555– 0.3%	1.434– 0.4%
Advertising	4.286– 0.9%	3.386– 0.8%	5.288– 1.2%	5.165– 1.5%
Depreciation (except on buildings)	3.600– 0.8%	3.363– 0.8%	3.783– 0.8%	3.226– 1.0%
Bad debts charged off	210– 0.1%	177– 0.1%	319– 0.1%	388– 0.1%
Telephone	1.517– 0.3%	1.355– 0.3%	1.327– 0.3%	1.159– 0.3%
Miscellaneous	12.157– 2.7%	9.313– 2.2%	11.941– 2.6%	9.303– 2.8%
	10.4%	9.5%	10.2%	10.7%
Total expenses	$142.616– 31.4%	$128.518– 30.9%	$134.189– 30.1%	$104.630– 31.0%
Net profit (before taxes)	$ 7.405– 1.6%	$ 9.627– 2.3%	$ 11.940– 2.7%	$ 11.973– 3.5%
Add proprietor's withdrawals	25.887– 5.7%	27.038– 6.5%	26.005– 5.8%	23.998– 7.1%
Total income of self-employed proprietor (before taxes on income and profits)	$ 33.292– 7.3%	$ 36.665– 8.8%	$ 37.945– 8.5%	$ 35.971– 10.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 23.534– 11.7%	$ 25.817– 12.8%	$ 23.832– 11.6%	$ 21.613– 12.6%
Other	46.384– 18.3%	41.323– 19.2%	45.403– 19.0%	37.220– 22.3%
Total	$ 69.918– 15.4%	$ 67.140– 16.1%	$ 69.235– 15.5%	$ 58.833– 17.4%
Annual rate of turnover of inventory	4.5 times	4.3 times	4.5 times	3.9 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	345 $559.38	400 $503.64	384 $531.94	335 $506.63
Other	1,983 115.72	1,894 115.87	2,484 92.26	2,086 80.80
Total	2,328 181.43	2,294 183.55	2,868 151.08	2,421 139.81
Sales per dollar invested in inventory				
Prescription	$8.54	$7.80	$8.66	$7.94
Other	5.47	5.20	5.27	4.48
Net profit per dollar invested in inventory	$0.106	$0.143	$0.172	$0.204
Number of prescriptions dispensed				
New	14,622– 49.1%	15,876– 52.6%	14,066– 50.0%	10,667– 45.5%
Renewed	15,166– 50.9%	14,309– 47.4%	14,072– 50.0%	12,797– 54.5%
Total	29,788–100.0%	30,185–100.0%	28,138–100.0%	23,464–100.0%
Prescription charge	$6.75	$6.67	$7.33	$7.31
Number of hours per week				
Pharmacy was open	75 hours	71 hours	67 hours	61 hours
Worked by proprietor	46 hours	48 hours	47 hours	48 hours
Worked by employed pharmacist(s)	57 hours	43 hours	40 hours	33 hours

*Based on averages of pharmacies that reported all data

South Atlantic States (175 Pharmacies)	East South Central States (115 Pharmacies)	West South Central States (127 Pharmacies)	Mountain States (81 Pharmacies)	Pacific States (207 Pharmacies)	U.S. Average (1,458 Pharmacies)
$211,231— 52.8%	$214,280— 64.4%	$194,392— 63.9%	$163,226— 37.8%	$183,681— 47.9%	$195,159— 49.8%
189,154— 47.2%	118,522— 35.6%	109,849— 36.1%	268,518— 62.2%	199,811— 52.1%	196,522— 50.2%
$400,385—100.0%	$332,802—100.0%	$304,241—100.0%	$431,744—100.0%	$383,492—100.0%	$391,681—100.0%
262,864— 65.7%	210,768— 63.3%	195,678— 64.3%	289,687— 67.1%	241,253— 62.9%	257,334— 65.7%
$137,521— 34.3%	$122,034— 36.7%	$108,563— 35.7%	$142,057— 32.9%	$142,239— 37.1%	$134,347— 34.3%
$ 26,750— 6.7%	$ 24,128— 7.2%	$ 21,716— 7.1%	$ 24,106— 5.6%	$ 26,496— 6.9%	$ 25,346— 6.5%
50,432— 12.6%	41,417— 12.4%	32,943— 10.8%	46,998— 10.9%	49,065— 12.8%	46,759— 11.9%
8,696— 2.2%	7,883— 2.4%	8,176— 2.7%	10,937— 2.5%	12,417— 3.2%	9,783— 2.5%
3,791— 0.9%	2,965— 0.9%	2,612— 0.9%	3,335— 0.8%	2,666— 0.7%	3,291— 0.8%
1,669— 0.4%	1,266— 0.4%	1,447— 0.5%	1,990— 0.5%	2,308— 0.6%	1,804— 0.5%
6,574— 1.6%	5,058— 1.5%	4,021— 1.3%	5,349— 1.2%	7,085— 1.9%	5,848— 1.5%
4,428— 1.1%	3,624— 1.1%	2,983— 1.0%	4,281— 1.0%	4,688— 1.2%	4,214— 1.1%
2,617— 0.6%	1,893— 0.6%	2,352— 0.8%	3,840— 0.9%	2,102— 0.6%	2,584— 0.7%
1,231— 0.3%	1,124— 0.3%	997— 0.3%	1,546— 0.4%	1,419— 0.4%	1,344— 0.4%
1,491— 0.4%	1,417— 0.4%	1,751— 0.6%	1,481— 0.3%	1,726— 0.5%	1,662— 0.4%
3,827— 1.0%	4,000— 1.2%	3,643— 1.2%	5,042— 1.2%	4,139— 1.1%	4,436— 1.1%
3,491— 0.9%	2,834— 0.9%	2,866— 0.9%	4,027— 0.9%	3,022— 0.8%	3,369— 0.9%
1,211— 0.3%	635— 0.2%	783— 0.2%	1,198— 0.2%	561— 0.1%	565— 0.1%
1,439— 0.4%	1,251— 0.4%	1,500— 0.5%	1,886— 0.4%	1,298— 0.3%	1,365— 0.3%
8,908— 2.2%	8,134— 2.4%	8,214— 2.7%	13,213— 3.1%	11,685— 3.0%	10,362— 2.6%
10.1%	10.3%	10.9%	10.9%	11.2%	10.4%
$126,555— 31.6%	$107,629— 32.3%	$ 96,004— 31.5%	$129,229— 29.9%	$130,677— 34.1%	$122,732— 31.3%
$ 10,966— 2.7%	$ 14,405— 4.4%	$ 12,559— 4.2%	$ 12,828— 3.0%	$ 11,562— 3.0%	$ 11,615— 3.0%
26,750— 6.7%	24,126— 7.2%	21,716— 7.1%	24,106— 5.6%	26,496— 6.9%	25,346— 6.5%
$ 37,716— 9.4%	$ 38,533— 11.6%	$ 34,275— 11.2%	$ 36,934— 8.6%	$ 38,058— 9.9%	$ 36,961— 9.5%
$ 24,098— 11.4%	$ 23,254— 10.9%	$ 23,000— 11.8%	$ 21,790— 13.3%	$ 19,928— 10.8%	$ 22,941— 11.8%
41,126— 21.7%	31,154— 26.3%	28,468— 25.9%	59,095— 22.0%	42,525— 21.3%	41,125— 20.9%
$ 65,224— 16.3%	$ 54,408— 16.3%	$ 51,468— 16.9%	$ 80,885— 18.7%	$ 62,453— 16.3%	$ 64,066— 16.4%
4.2 times	4.0 times	3.9 times	3.7 times	4.0 times	4.2 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
397 $534.34	406 $526.20	386 $504.38	368 $432.45	392 $473.31	381 $510.56
2,409 78.60	1,682 71.00	1,722 62.97	2,794 101.26	2,369 85.03	2,205 88.23
2,806 143.09	2,088 159.59	2,108 143.88	3,162 139.80	2,761 140.11	2,586 150.39
$8.77	$9.21	$8.45	$7.49	$9.22	$8.51
4.60	3.80	3.86	4.54	4.70	4.78
$0.168	$0.265	$0.244	$0.159	$0.185	$0.181
15,621— 49.2%	15,465— 47.1%	12,318— 47.2%	11,600— 54.8%	11,978— 53.3%	13,499— 49.7%
16,100— 50.8%	17,355— 52.9%	13,765— 52.8%	9,587— 45.2%	10,502— 46.7%	13,688— 50.3%
31,721—100.0%	32,820—100.0%	26,083—100.0%	21,187—100.0%	22,480—100.0%	27,187—100.0%
$6.66	$6.53	$7.45	$7.70	$8.17	$7.18
63 hours	62 hours	58 hours	62 hours	59 hours	64 hours
45 hours	45 hours	48 hours	47 hours	45 hours	47 hours
38 hours	32 hours	22 hours	36 hours	34 hours	37 hours

Pharmacy Location

The site of the store has a noticeable effect on the financial picture of any community pharmacy. Chart 4 and Table 20 illustrate this effect on the operating figures for 1979. No significant deviation was observed in the distribution of retail pharmacies when compared with 1978 figures, although a larger percentage of pharmacies reported medical office building locations.

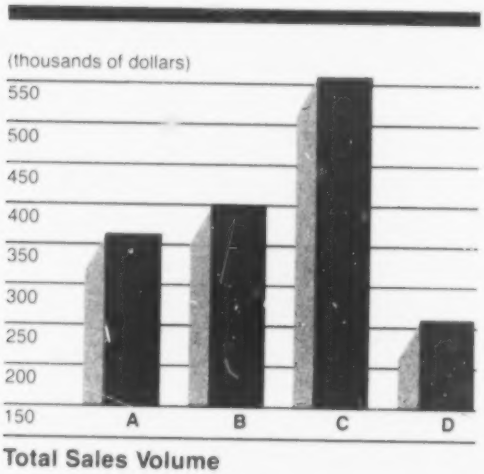
Shopping center operations again had the highest average sales and the largest floor area of the locations shown. They also reported the greatest sales per dollar invested in prescription inventory and the highest number of total prescriptions dispensed and remained open the longest hours.

Neighborhood and shopping center locations reported the greatest net profit loss when compared with 1978 percentages (down 0.5 percent), whereas pharmacies in medical office buildings maintained a stable net profit at 5.4 percent of sales.

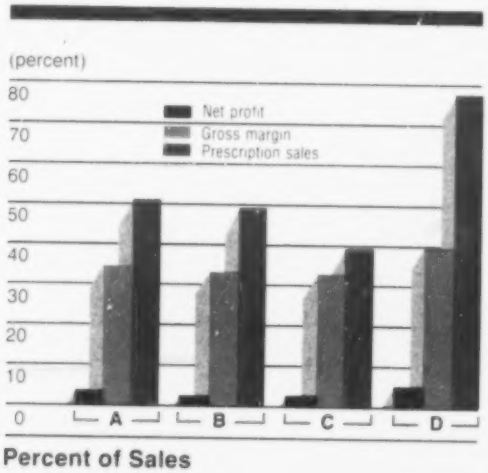
Medical office building pharmacies again posted the highest net profit and the fewest weekly hours open. They also had the highest prescription charge ($7.52) and gross margin (39.8 percent of sales). Stores of this type spent more rental dollars per square foot than any of the other pharmacy locations ($10.22). Net profit per dollar invested in inventory was highest in medical office building pharmacies.

Chart 4 *The effect of location on pharmacy operating data*

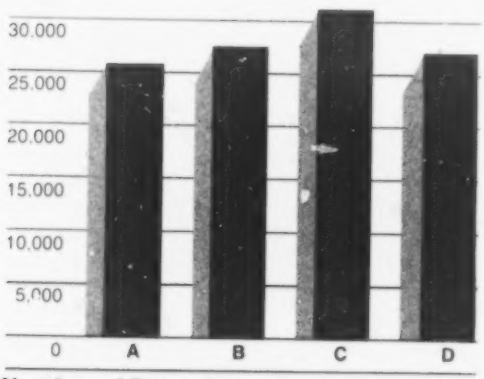
A Downtown
B Neighborhood
C Shopping Center
D Medical Office Building



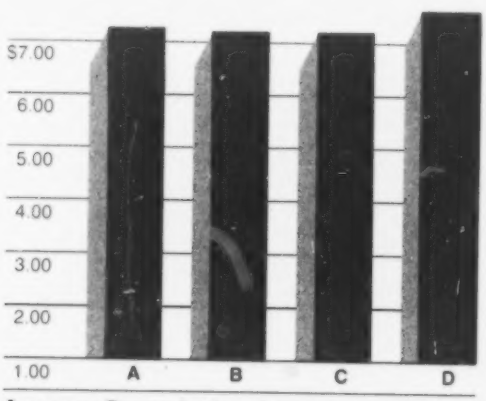
Total Sales Volume



Percent of Sales



Number of Prescriptions



Average Prescription Charge

Table 20 *Summary of pharmacy operations according to location*

Averages per Pharmacy	Downtown (526 Pharmacies)	Neighborhood (458 Pharmacies)	Shopping Center (230 Pharmacies)	Medical Office Building (191 Pharmacies)
Sales				
Prescription	$184,005— 50.8%	$194,710— 49.0%	$218,378— 39.3%	$201,637— 77.6%
Other	177,947— 49.2%	202,526— 51.0%	336,781— 60.7%	58,123— 22.4%
Total	$361,952—100.0%	$397,236—100.0%	$555,159—100.0%	$259,760—100.0%
Cost of goods sold	236,305— 65.3%	264,110— 66.5%	373,877— 67.3%	156,353— 60.2%
Gross margin	$125,647— 34.7%	$133,126— 33.5%	$181,282— 32.7%	$103,407— 39.8%
Expenses				
Proprietor's or manager's salary	$ 23,823— 6.6%	$ 25,843— 6.5%	$ 28,972— 5.2%	$ 23,948— 9.2%
Employees' wages	43,852— 12.1%	48,135— 12.1%	67,030— 12.1%	27,133— 10.4%
Rent	7,016— 1.9%	9,146— 2.3%	15,703— 2.8%	11,575— 4.5%
Heat, light, and power	3,257— 0.9%	3,516— 0.9%	4,875— 0.9%	925— 0.4%
Accounting, legal, and other professional fees	1,552— 0.4%	1,875— 0.5%	2,423— 0.4%	1,618— 0.6%
Taxes, (except on buildings, income, and profit) and licenses	5,227— 1.5%	6,344— 1.6%	7,959— 1.4%	3,930— 1.5%
Insurance (except on buildings)	3,806— 1.1%	4,498— 1.1%	5,835— 1.1%	2,632— 1.0%
Interest paid	2,763— 0.8%	2,454— 0.6%	3,273— 0.6%	1,334— 0.5%
Repairs	1,221— 0.3%	1,547— 0.4%	1,903— 0.3%	532— 0.2%
Delivery	1,425— 0.4%	1,832— 0.5%	2,025— 0.4%	1,418— 0.5%
Advertising	4,975— 1.4%	3,944— 1.0%	6,277— 1.1%	1,582— 0.6%
Depreciation (except on buildings)	3,385— 0.9%	3,307— 0.8%	4,342— 0.8%	2,183— 0.8%
Bad debts charged off	474— 0.1%	585— 0.1%	559— 0.1%	808— 0.3%
Telephone	1,197— 0.3%	1,510— 0.4%	1,615— 0.3%	1,163— 0.5%
Miscellaneous	9,534— 2.7%	9,653— 2.4%	14,770— 2.7%	8,734— 3.4%
Total expenses	$113,507— 31.4%	$124,189— 31.2%	$167,561— 30.2%	$ 89,515— 34.4%
Net profit (before taxes)	$ 12,140— 3.3%	$ 8,937— 2.3%	$ 13,721— 2.5%	$ 13,892— 5.4%
Add proprietor's withdrawals	23,823— 6.6%	25,843— 6.5%	28,972— 5.2%	23,948— 9.2%
Total income of self-employed proprietor (before taxes on income and profits)	$ 35,963— 9.9%	$ 34,780— 8.8%	$ 42,693— 7.7%	$ 37,840— 14.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 21,905— 11.9%	$ 23,513— 12.1%	$ 23,459— 10.7%	$ 23,896— 11.9%
Other	41,166— 23.1%	40,222— 19.9%	67,944— 20.2%	8,832— 15.2%
Total	$ 63,071— 17.4%	$ 63,735— 16.0%	$ 91,403— 16.5%	$ 32,728— 12.6%
Annual rate of turnover of inventory	3.9 times	4.3 times	4.3 times	5.0 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	360 $508.93	371 $523.69	404 $536.97	435 $464.87
Other	2,180 80.06	2,209 92.45	3,390 96.79	697 86.51
Total	2,540 147.82	2,580 161.36	3,794 152.29	1,132 251.83
Sales per dollar invested in inventory				
Prescription	$8.40	$8.28	$9.31	$8.44
Other	4.32	5.04	4.96	6.58
Net profit per dollar invested in inventory	$0.192	$0.140	$0.150	$0.424
Number of prescriptions dispensed				
New	11,948— 46.5%	13,561— 49.5%	15,330— 49.9%	15,628— 58.3%
Renewed	13,740— 53.5%	13,832— 50.5%	15,381— 50.1%	11,195— 41.7%
Total	25,688—100.0%	27,393—100.0%	30,711—100.0%	26,823—100.0%
Prescription charge	$7.16	$7.11	$7.11	$7.52
Number of hours per week				
Pharmacy was open	62 hours	66 hours	71 hours	52 hours
Worked by proprietor	48 hours	47 hours	46 hours	43 hours
Worked by employed pharmacist(s)	34 hours	40 hours	47 hours	26 hours

10.8%

10.3%

10.1%

10.3%

*Based on averages of pharmacies that reported all data

Rent

The average rental expense for all pharmacies reporting to the LILLY DIGEST rose 0.1 percent to 2.5 percent of sales during 1979. The long-term nature of rental agreements probably accounts for the overall consistency of the rental rate over time. There is usually considerable negotiation between lessor and lessee, as the pharmacy owner realizes the impact of the rental figure on his net profit projection. Community pharmacy leases specify rental payments in terms of percentage of sales, dollar figures per square foot occupied, total monthly or yearly dollar sales, or some combination of flat dollar fee and percentage of sales.

Table 21 summarizes rental expense as a percent of sales according to sales size. The frequency distribution of rental expense has changed very little from that reported in last year's DIGEST. The majority of pharmacies (55.0 percent) paid 2.5 percent or less for rent, down from 57.8 percent in 1978. A total of 1,120, or 76.9 percent of respondents, said they spent less than 3.5 percent of sales on rental expense.

Since many variables can affect pharmacy rent, Table 22 permits the evaluation of rental expenditure from a number of different standpoints.

Section A shows the effect of total sales volume on rent. As sales increase, rent generally declines as a percent of sales, although it rises dollarwise. In larger operations, rent is higher in dollars but the sales productivity per square foot is much greater.

Section B depicts how, as the ratio of prescription volume to total sales advances, the size of the pharmacy decreases. Rent, expressed both in dollars and in percentage of sales, tends to decline until the highest prescription categories are reached. These prescription-oriented operations are probably located in medical office buildings, which characteristically charge higher rents.

The total sales volume rises when there is an increase in the number of prescriptions dispensed daily. Section C demonstrates that, as sales volume advances, rent declines percentagewise. This closely parallels the data found in Section A.

The effect that store age has on rental expenditure is presented in Section D. Pharmacies in operation less than two years have the lowest sales volume but report the highest rent as a percent of total sales. As a store matures, total sales volume continues to rise, and rent declines as a percent of sales.

Section E illustrates rent expense according to geographic region. Pharmacies in the Pacific States again reported the highest rental expense of any region. To sustain an adequate net profit in this region, a higher-than-average gross margin is necessary to offset the higher cost of doing business. The New England States reported the highest average total sales while posting the lowest rent percentage.

Table 21 *Rental percentages by sales size*

	Under $100,000	$100,000-$150,000	$150,000-$200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$500,000	$500,000-$600,000	$600,000-$750,000	Over $750,000	Total	Percent of Pharmacies
Number of Pharmacies	48	110	171	173	176	139	122	189	117	93	120	1,458	100.0%
Rent as a Percent of Sales													
Less than 1.5%	7	13	36	39	57	42	29	45	32	13	25	338	23.2%
1.5% to 2.5%	4	24	44	66	54	49	39	66	42	30	45	463	31.8%
2.5% to 3.5%	10	20	38	28	35	27	29	45	23	30	34	319	21.9%
3.5% to 4.5%	6	20	25	17	17	7	16	19	11	12	8	158	10.8%
4.5% to 5.5%	4	19	8	11	3	7	5	9	4	3	3	76	
5.5% to 6.5%	6	7	11	5	5	5	2	1	3	4	3	52	
6.5% to 7.5%	3	2	5	3	3	—	1	3	—	1	2	23	
7.5% to 8.5%	2	—	2	4	2	—	—	—	—	—	—	10	
8.5% to 9.5%	3	3	1	—	—	—	1	—	1	—	—	9	12.3%
9.5% to 10.5%	—	2	—	—	—	—	—	—	—	—	—	2	
10.5% to 11.5%	—	—	1	—	—	—	—	—	—	—	—	1	
11.5% to 12.5%	1	—	—	—	—	2	—	—	—	—	—	3	
12.5% and over	2	—	—	—	—	—	—	1	1	—	—	4	

Table 22 *Rent correlated with various factors*

A Annual Sales	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
Under $100,000	$ 80,142	1,076	$ 74.70	$ 3,691	$3.43	4.6%
$100,000 to $150,000	129,348	1,196	108.48	4,592	3.84	3.6%
$150,000 to $200,000	176,938	1,522	116.41	5,244	3.45	3.0%
$200,000 to $250,000	223,843	1,749	128.15	5,711	3.27	2.6%
$250,000 to $300,000	274,786	1,989	138.04	6,470	3.25	2.4%
$300,000 to $350,000	324,551	2,175	149.16	7,613	3.50	2.3%
$350,000 to $400,000	373,972	2,919	128.05	9,302	3.19	2.5%
$400,000 to $500,000	451,566	2,788	161.76	10,966	3.93	2.4%
$500,000 to $600,000	544,088	3,050	178.22	13,367	4.38	2.5%
$600,000 to $750,000	670,450	4,556	147.15	18,196	3.99	2.7%
Over $750,000	1,112,994	5,882	183.93	25,300	4.30	2.3%
LILLY DIGEST Average	391,681	2,586	150.39	9,783	3.78	2.5%
B Percentage of Prescription Volume to Total Sales						
Under 20%	$ 904,393	5,580	$153.63	$22,479	$4.03	2.5%
20% to 25%	670,142	4,765	141.54	21,616	4.54	3.2%
25% to 30%	651,736	4,830	123.43	15,524	3.21	2.4%
30% to 35%	560,837	3,689	148.72	13,602	3.69	2.4%
35% to 40%	466,352	3,385	137.38	11,576	3.42	2.5%
40% to 45%	424,711	2,870	147.50	9,961	3.47	2.3%
45% to 50%	409,627	2,909	141.15	9,429	3.24	2.3%
50% to 55%	375,498	2,677	141.37	8,436	3.15	2.2%
55% to 60%	345,460	2,461	140.70	7,162	2.91	2.1%
60% to 75%	312,142	2,012	155.35	7,484	3.72	2.4%
Over 75%	251,512	1,170	217.18	8,108	6.93	3.2%
C Number of Prescriptions Dispensed Daily						
Under 25	$ 146,579	1,729	$ 89.08	$ 5,380	$3.11	3.7%
25 to 35	204,928	1,982	110.02	6,137	3.10	3.0%
35 to 50	236,498	2,120	121.48	6,361	3.00	2.7%
50 to 60	306,505	2,427	138.02	8,074	3.33	2.6%
60 to 75	359,773	2,586	144.46	8,723	3.37	2.4%
75 to 100	455,646	2,893	163.72	11,334	3.92	2.5%
100 to 125	514,760	2,812	196.22	12,211	4.34	2.4%
125 to 150	616,156	3,106	218.45	15,296	4.92	2.5%
150 to 200	802,875	3,568	255.88	19,518	5.47	2.4%
Over 200	1,298,249	5,154	283.40	23,582	4.58	1.8%
D Number of Years Pharmacy Has Been in Operation						
Less than 2 years	$ 280,779	2,050	$137.00	$ 8,569	$4.18	3.1%
2 to 5 years	302,125	2,249	134.34	8,476	3.77	2.8%
5 to 10 years	366,423	2,325	157.60	9,436	4.06	2.6%
Over 10 years	459,699	2,952	155.74	10,582	3.59	2.3%
E Geographic Region						
New England States	$ 454,744	2,328	$181.43	$ 9,519	$4.09	2.1%
Middle Atlantic States	416,357	2,294	183.55	9,916	4.32	2.4%
East North Central States	445,639	2,868	151.08	10,512	3.67	2.4%
West North Central States	338,360	2,421	139.81	8,510	3.52	2.5%
South Atlantic States	400,385	2,806	143.09	8,696	3.10	2.2%
East South Central States	332,802	2,088	159.59	7,883	3.78	2.4%
West South Central States	304,241	2,108	143.88	8,176	3.88	2.7%
Mountain States	431,744	3,162	139.80	10,937	3.46	2.5%
Pacific States	383,492	2,761	140.11	12,417	4.50	3.2%

*Based on averages of pharmacies that reported all data

Balance Sheet and Financial Ratios

The pharmacist-owner must review the balance sheet from the standpoint of a capital investor, relating income to the permanent funds invested and evaluating the overall liquidity and solvency of the business. Since the primary objective of a business is to earn a satisfactory return on the funds invested in it, he must be prepared to justify any unusual expenditures or losses. A sound management policy dictates that the pharmacist-owner manager review both the income and expense statement for an evaluation of operations and the balance sheet for an assessment of financial position.

The owner-investor can judge how effectively the assets are being utilized by relating the asset and liability position to sales and profit figures (see Table 23). Balance sheet information can be developed into ratios that measure asset usage (return on asset investment); the liquidity of the business, or its ability to meet current obligations (current ratio); and the general solvency of the firm (debt equity ratio). It should be noted that the ratios calculated from the financial information are not inflexible determinants of success or failure but, rather, represent indicators of performance at one point in time. It is suggested that these ratios be considered as a group rather than separately. Comparisons can be made with the values to be found in Tables 24 through 28.

Liquidity or Short-Term Capitalization

Liquidity measures the pharmacy's ability to meet its current obligations and reflects the relationship between the store's short-term financial obligations (current liabilities) and the source of funds available to meet these requirements (current assets).

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The "current ratio" is determined by dividing the current assets (cash, notes and accounts receivable, and inventory) by the current liabilities (accounts and notes payable which fall due within one year). Some observers believe that a current ratio of 2 to 1 is appropriate for many businesses. This value would allow the current assets to shrink 50 percent and still cover the current obligations.

The current ratio is a measure not only of the pharmacy's liquidity but also of the margin of safety that management maintains in order to allow for the inevitable unevenness in the flow of funds during the year.

A creditor would like to see a high current ratio; this would indicate a wide margin of safety for any claims against the business. However, a very high ratio may indicate that the manager is not utilizing funds in the most productive way. The inventory, accounts receivable, and cash investment may be higher than necessary and therefore not generating an adequate return.

Table 24 gives an average current ratio of 3.0 to 1 for LILLY DIGEST pharmacies, with newer operations having lower ratios than established pharmacies.

Profitability

Profitability is the measuring stick used to evaluate how effective the manager has been in increasing the owner's equity.

$$\text{Net Profit on Net Sales} = \frac{\text{Net Profit (before Taxes)}}{\text{Annual Sales}}$$

Net profit as a percentage of sales is a widely used measure of profitability. Year-to-year comparisons can be made to discover whether increased profits were due only to increased sales or whether a larger percentage of sales revenue was accounted for in the net profit figure. A discussion of the subject appears on page 36. This measure of profitability is most useful in connection with another standard ratio—return on investment.

$$\text{Return on Investment (Return on Equity)} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Net worth is the amount of owner's equity and is the difference between total assets and total liabilities. The resulting figure is then divided into net profit (before taxes). In recent years, the return-on-equity calculation has been considered the broadest measure of overall performance, since it evaluates how well funds, as supplied by the owners, are being utilized.

Some individuals think that a more accurate indicator of investment return can be found in the return on total investment.

$$\text{Return on Total investment} = \frac{\text{Net Profit (before Taxes)}}{\text{Owner's Equity + Long-Term Liabilities}}$$

Net profit on total investment looks at income in relation to the total of the permanent funds invested in the business. It makes no distinction between owner's equity and borrowed capital. The return-on-total-investment ratio is a measure of how well management has used all these permanent funds.

Solvency or Long-Term Capitalization

Solvency is calculated by lenders in estimating the borrowing potential of a firm. Solvency refers to the ability of a pharmacy to meet the repayment schedule on long-term obligations.

$$\text{Debt/Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A pharmacy in which the total debt exceeds the owner's equity is quite vulnerable to sharp or dramatic changes in the operation. Such changes could be caused by a sudden and prolonged drop in sales or a rise in expenses. When the debt/equity ratio is low, in comparison with that in similar operations, the pharmacy may not be leveraged to best advantage.

Net Sales to Net Worth

This ratio examines the productivity of equity in terms of generating sales. A high ratio may imply inadequate owner's capitalization or, put another way, a highly leveraged firm. When the ratio is low, the operation is not obtaining full use of its funds, and the owner's investment has become stagnant.

Funded Debt to Net Working Capital

Funded debts are long-term obligations such as mortgages, chattel mortgages, term notes, and other notes not maturing within one year. If funded debt is divided by net working capital, a ratio is obtained which is helpful in determining one's ability to borrow. When the percentage is low, there is less reliance on funded debt for working capital, and the owner is in a better financial position to borrow funds.

$$\text{Average Payable Period} = \frac{\text{Outstanding Accounts Payable}}{\text{Annual Purchases}} \times 365$$

This ratio expresses the number of days outstanding in accounts payable and measures the extent to which a business is operating on suppliers' capital. A higher than average value may imply that the pharmacy is not taking suppliers' cash discounts. This form of credit is the most easily obtained, but it is also one of the most expensive sources of funds when the lost discounts are considered.

Table 23 summarizes the balance sheet data submitted by 1,151 pharmacies. When compared with 1978 data, net working capital was greater by $400 (up 0.7 percent) as the result of a $715 increase in current assets (up 0.9 percent) and a $315 rise in current liabilities (up 1.1 percent). Net worth rose by $1,859 (up 3.2 percent) during 1979; as a percent of sales, it also increased, from 16.7 to 17.0 percent. Since the loss in net profit before taxes (0.9 percent) was not enough to offset the gain in net worth for these pharmacies, there was less return on investment.

Figures for comparison are arranged according to age of the store as well as to sales volume. The primary column for comparison in each category is that which expresses the components as a percent of sales (printed in color).

Table 23 *Current trends in balance sheet information*

Averages per Pharmacy	December 31,1979 (1,151 Pharmacies)	December 31,1978 (1,276 Pharmacies)	Amount and Percent of Change
Assets			
Current assets			
Cash	$ 11,935— 11.4%	$ 12,296— 11.9%	– $ 361—2.9%
Accounts receivable	13,564— 13.0%	13,462— 13.0%	+ $ 102—0.7%
Inventory	59,250— 56.9%	58,276— 56.6%	+ $ 974—1.7%
Total current assets	$ 84,749— 81.3%	$ 84,034— 81.5%	+ $ 715—0.9%
Fixed assets			
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	14,117— 13.5%	13,771— 13.3%	+ $ 346—2.5%
Other assets			
Prepaid expenses, deposits, etc.	5,376— 5.2%	5,357— 5.2%	+ $ 19—0.3%
Total assets*	$104,242—100.0%	$103,162—100.0%	+ $1,080—1.0%
Liabilities			
Current and accrued liabilities			
Accounts payable	$ 16,713— 16.0%	$ 16,633— 16.1%	+ $ 80—0.5%
Notes payable (within one year)	5,804— 5.6%	5,620— 5.4%	+ $ 184—3.3%
Accrued expenses and other liabilities	5,554— 5.3%	5,503— 5.3%	+ $ 51—0.9%
Total current and accrued liabilities	$ 28,071— 26.9%	$ 27,756— 26.8%	+ $ 315—1.1%
Long-term liabilities			
Notes payable (later than one year)	15,313— 14.7%	16,407— 15.9%	– $1,094—6.7%
Total liabilities	$ 43,384— 41.6%	$ 44,163— 42.7%	– $ 779—1.8%
Net Worth	60,858— 58.4%	58,999— 57.3%	+ $1,859—3.2%
Total liabilities and net worth*	$104,242—100.0%	$103,162—100.0%	+ $1,080—1.0%
Net working capital	$ 56,678	$ 56,278	+ $ 400—0.7%
Sales	$360,510	$352,942	+ $7,568—2.1%
Purchases	$239,979	$236,363	+ $3,616—1.5%
Net profit (before taxes)	$ 12,623	$ 12,734	– $ 111—0.9%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Table 24 *Current financial ratios by pharmacy age*

	Pharmacy Age under 2 Years (98 Pharmacies)	Pharmacy Age 2 to 5 Years (251 Pharmacies)	Pharmacy Age 5 to 10 Years (232 Pharmacies)	Pharmacy Age over 10 Years (570 Pharmacies)	Total (1,151 Pharmacies)
Current assets to current liabilities	3.2 times	2.9 times	2.7 times	3.2 times	3.0 times
Quick assets to current liabilities	0.9 times	0.8 times	0.8 times	1.0 times	0.9 times
Net sales to inventory	5.4 times	5.7 times	6.2 times	6.3 times	6.1 times
Inventory to net working capital	106.3%	112.5%	112.4%	99.4%	104.5%
Current debt to inventory	43.3%	47.4%	51.8%	46.2%	47.4%
Net sales to net working capital	5.7 times	6.5 times	6.9 times	6.2 times	6.4 times
Net profit (before taxes) on net sales	3.2%	3.8%	4.0%	3.3%	3.5%
Net profit (before taxes) on net worth	21.4%	29.0%	24.9%	17.6%	20.7%

Table 25 *Balance sheet and financial ratios by pharmacy age as of December 31, 1979—sales under $200,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (134 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (120 Pharmacies)	Percent of Sales	Total (254 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 4,970— 10.4%	3.4%	$ 5,464— 10.8%	3.6%	$ 5,203— 10.6%	3.5%
Accounts receivable	4,535— 9.5%	3.1%	6,156— 12.2%	4.1%	5,301— 10.8%	3.5%
Inventory	27,365— 57.3%	18.7%	28,754— 56.7%	18.9%	28,021— 57.0%	18.9%
Total current assets	$ 36,870— 77.2%	25.2%	$ 40,374— 79.7%	26.6%	$ 38,525— 78.4%	25.9%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	9,819— 20.5%	6.7%	7,094— 14.0%	4.7%	8,532— 17.4%	5.7%
Other assets						
Prepaid expenses, deposits, etc.	1,079— 2.3%	0.8%	3,175— 6.3%	2.1%	2,069— 4.2%	1.4%
Total assets*	$ 47,768—100.0%	32.7%	$ 50,643—100.0%	33.4%	$ 49,126—100.0%	33.0%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 6,683— 14.0%	4.6%	$ 6,393— 12.6%	4.2%	$ 6,546— 13.3%	4.4%
Notes payable (within one year)	3,313— 6.9%	2.2%	2,539— 5.0%	1.7%	2,947— 6.0%	2.0%
Accrued expenses and other liabilities	1,750— 3.7%	1.2%	1,651— 3.3%	1.1%	1,703— 3.5%	1.1%
Total current and accrued liabilities	$ 11,746— 24.6%	8.0%	$ 10,583— 20.9%	7.0%	$ 11,196— 22.8%	7.5%
Long-term liabilities						
Notes payable (later than one year)	14,254— 29.8%	9.8%	6,027— 11.9%	3.9%	10,367— 21.1%	7.0%
Total liabilities	$ 26,000— 54.4%	17.8%	$ 16,610— 32.8%	10.9%	$ 21,563— 43.9%	14.5%
Net Worth	21,768— 45.6%	14.9%	34,033— 67.2%	22.5%	27,563— 56.1%	18.5%
Total liabilities and net worth*	$ 47,768—100.0%	32.7%	$ 50,643—100.0%	33.4%	$ 49,126—100.0%	33.0%
Net working capital	$ 25,124	17.2%	$ 29,790	19.6%	$ 27,328	18.4%
Sales	$145,967	100.0%	$151,485	100.0%	$148,574	100.0%
Purchases	$ 96,016	65.8%	$ 95,652	63.1%	$ 95,844	64.5%
Net profit (before taxes)	$ 4,089	2.8%	$ 6,385	4.2%	$ 5,174	3.5%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	3.1 times	3.8 times	3.4 times
Quick assets to current liabilities	0.8 times	1.1 times	0.9 times
Net sales to inventory	5.3 times	5.3 times	5.3 times
Inventory to net working capital	108.9%	96.5%	102.5%
Current debt to inventory	42.9%	36.8%	39.9%
Net sales to net working capital	5.8 times	5.1 times	5.4 times
Net profit (before taxes) on net sales	2.8%	4.2%	3.5%
Net profit (before taxes) on net worth	18.8%	18.8%	18.8%

Table 26 *Balance sheet and financial ratios by pharmacy age as of December 31, 1979—sales $200,000 to $400,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (157 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (337 Pharmacies)	Percent of Sales	Total (494 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 7,963— 9.1%	2.8%	$ 11,230— 12.4%	3.8%	$ 10,192— 11.4%	3.5%
Accounts receivable	10,304— 11.8%	3.7%	12,559— 13.9%	4.2%	11,842— 13.2%	4.1%
Inventory	49,433— 56.6%	17.7%	50,458— 55.9%	16.9%	50,132— 56.1%	17.1%
Total current assets	$ 67,700— 77.5%	24.2%	$ 74,247— 82.2%	24.9%	$ 72,166— 80.7%	24.7%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	16,071— 18.4%	5.7%	10,830— 12.0%	3.6%	12,496— 14.0%	4.3%
Other assets						
Prepaid expenses, deposits, etc.	3,549— 4.1%	1.3%	5,271— 5.8%	1.8%	4,724— 5.3%	1.6%
Total assets*	$ 87,320—100.0%	31.2%	$ 90,348—100.0%	30.3%	$ 89,386—100.0%	30.6%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 12,649— 14.5%	4.5%	$ 13,672— 15.1%	4.6%	$ 13,347— 14.9%	4.6%
Notes payable (within one year)	6,631— 7.6%	2.4%	4,647— 5.1%	1.6%	5,278— 5.9%	1.8%
Accrued expenses and other liabilities	3,645— 4.2%	1.3%	4,543— 5.0%	1.5%	4,258— 4.8%	1.5%
Total current and accrued liabilities	$ 22,925— 26.3%	8.2%	$ 22,862— 25.2%	7.7%	$ 22,883— 25.6%	7.9%
Long-term liabilities						
Notes payable (later than one year)	27,606— 31.6%	9.9%	7,121— 7.9%	2.4%	13,631— 15.2%	4.7%
Total liabilities	$ 50,531— 57.9%	18.1%	$ 29,983— 33.1%	10.1%	$ 36,514— 40.8%	12.6%
Net Worth	36,789— 42.1%	13.1%	60,365— 66.9%	20.2%	52,872— 59.2%	18.0%
Total liabilities and net worth*	$ 87,320—100.0%	31.2%	$ 90,348—100.0%	30.3%	$ 89,386—100.0%	30.6%
Net working capital	$ 44,775	16.0%	$ 51,385	17.3%	$ 49,283	16.9%
Sales	$280,106	100.0%	$297,698	100.0%	$292,107	100.0%
Purchases	$184,572	65.9%	$193,623	65.0%	$190,746	65.3%
Net profit (before taxes)	$ 11,120	4.0%	$ 11,312	3.8%	$ 11,251	3.9%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	3.0 times	3.2 times	3.2 times
Quick assets to current liabilities	0.8 times	1.0 times	1.0 times
Net sales to inventory	5.7 times	5.9 times	5.8 times
Inventory to net working capital	110.4%	98.2%	101.7%
Current debt to inventory	46.4%	45.3%	45.6%
Net sales to net working capital	6.3 times	5.8 times	5.9 times
Net profit (before taxes) on net sales	4.0%	3.8%	3.9%
Net profit (before taxes) on net worth	30.2%	18.7%	21.3%

The balance sheet and financial ratios data in the LILLY DIGEST are arranged according to the following sales volume categories—under $200,000, $200,000 to $400,000, $400,000 to $600,000, and over $600,000. Pharmacies within each sales category are also divided according to age, with the exception of those stores reporting annual revenue over $600,000. In this category,

Table 27 *Balance sheet and financial ratios by pharmacy age as of December 31, 1979—sales $400,000 to $600,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (43 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (224 Pharmacies)	Percent of Sales	Total (267 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 19,632— 13.1%	4.0%	$ 15,478— 11.7%	3.2%	$ 16,147— 12.0%	3.3%
Accounts receivable	17,639— 11.8%	3.6%	19,439— 14.7%	4.0%	19,149— 14.2%	3.9%
Inventory	85,019— 57.0%	17.3%	73,632— 56.0%	15.0%	75,466— 56.1%	15.5%
Total current assets	$122,290— 81.9%	24.9%	$108,549— 82.4%	22.2%	$110,762— 82.3%	22.7%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	19,755— 13.2%	4.0%	16,152— 12.3%	3.3%	16,732— 12.4%	3.4%
Other assets						
Prepaid expenses, deposits, etc.	7,305— 4.9%	1.6%	7,103— 5.3%	1.5%	7,135— 5.3%	1.5%
Total assets*	$149,350—100.0%	30.5%	$131,804—100.0%	27.0%	$134,629—100.0%	27.6%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 25,071— 16.8%	5.1%	$ 22,918— 17.4%	4.7%	$ 23,265— 17.3%	4.8%
Notes payable (within one year)	9,337— 6.3%	1.9%	6,088— 4.6%	1.2%	6,611— 4.9%	1.4%
Accrued expenses and other liabilities	7,151— 4.8%	1.5%	7,453— 5.7%	1.5%	7,405— 5.5%	1.5%
Total current and accrued liabilities	$ 41,559— 27.9%	8.5%	$ 36,459— 27.7%	7.4%	$ 37,281— 27.7%	7.7%
Long-term liabilities						
Notes payable (later than one year)	37,138— 24.9%	7.6%	13,598— 10.3%	2.8%	17,389— 12.9%	3.6%
Total liabilities	$ 78,697— 52.8%	16.1%	$ 50,057— 38.0%	10.2%	$ 54,670— 40.6%	11.3%
Net Worth	70,653— 47.2%	14.4%	81,747— 62.0%	16.8%	79,959— 59.4%	16.3%
Total liabilities and net worth*	$149,350—100.0%	30.5%	$131,804—100.0%	27.0%	$134,629—100.0%	27.6%
Net working capital	$ 80,731	16.5%	$ 72,090	14.8%	$ 73,481	15.0%
Sales	$490,396	100.0%	$487,877	100.0%	$488,283	100.0%
Purchases	$324,432	66.2%	$324,946	66.6%	$324,863	66.5%
Net profit (before taxes)	$ 22,245	4.5%	$ 17,431	3.6%	$ 18,206	3.7%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	2.9 times	3.0 times	3.0 times
Quick assets to current liabilities	0.9 times	1.0 times	0.9 times
Net sales to inventory	5.8 times	6.6 times	6.5 times
Inventory to net working capital	105.3%	102.1%	102.7%
Current debt to inventory	48.9%	49.5%	49.4%
Net sales to net working capital	6.1 times	6.8 times	6.6 times
Net profit (before taxes) on net sales	4.5%	3.6%	3.7%
Net profit (before taxes) on net worth	31.5%	21.3%	22.8%

there were too few operations under five years of age to provide meaningful comparisons. The figures indicate that, regardless of sales volume, as a pharmacy matures to over five years of age, long-term liabilities decrease considerably both dollarwise and as a percent of sales. This shows that, as a pharmacy matures, it generates funds which retire debt and build up net worth.

Table 28 *Balance sheet and financial ratios as of December 31, 1979—sales over $600,000*

Averages per Pharmacy	Total (136 Pharmacies)		Percent of Sales
Assets			
Current assets			
Cash	$ 22,570	11.2%	3.0%
Accounts receivable	24,282	12.1%	3.2%
Inventory	118,860	58.9%	15.8%
Total current assets	$165,712	82.2%	22.0%
Fixed assets			
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	25,301	12.6%	3.4%
Other assets			
Prepaid expenses, deposits, etc.	10,475	5.2%	1.3%
Total assets*	$201,488	100.0%	26.7%
Liabilities			
Current and accrued liabilities			
Accounts payable	$ 35,068	17.4%	4.7%
Notes payable (within one year)	11,468	5.7%	1.5%
Accrued expenses and other liabilities	13,825	6.9%	1.8%
Total current and accrued liabilities	$ 60,361	30.0%	8.0%
Long-term liabilities			
Notes payable (later than one year)	26,584	13.2%	3.5%
Total liabilities	$ 86,945	43.2%	11.5%
Net Worth	114,543	56.8%	15.2%
Total liabilities and net worth*	$201,488	100.0%	26.7%
Net working capital	$105,351		14.0%
Sales	$753,950		100.0%
Purchases	$521,358		69.2%
Net profit (before taxes)	$ 20,560		2.7%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios	
Current assets to current liabilities	2.7 times
Quick assets to current liabilities	0.8 times
Net sales to inventory	6.3 times
Inventory to net working capital	112.8%
Current debt to inventory	50.8%
Net sales to net working capital	7.2 times
Net profit (before taxes) on net sales	2.7%
Net profit (before taxes) on net worth	17.9%

Table 29 *Ten-year trends*

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets										
Current assets										
Cash	3.3%	3.5%	3.8%	3.8%	4.1%	3.9%	4.5%	4.7%	4.3%	4.3%
Accounts receivable	3.8%	3.8%	3.9%	3.9%	4.0%	4.2%	4.1%	4.2%	4.2%	4.4%
Inventory	16.4%	16.5%	16.4%	16.5%	16.5%	16.9%	16.8%	16.9%	16.9%	17.4%
Total current assets	23.5%	23.8%	24.1%	24.2%	24.6%	25.0%	25.4%	25.8%	25.4%	26.1%
Fixed assets										
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	3.9%	3.9%	3.8%	3.9%	3.7%	3.7%	4.0%	4.1%	4.4%	4.4%
Other assets										
Prepaid expenses, deposits, etc.	1.5%	1.5%	1.4%	1.3%	1.6%	1.5%	1.7%	1.6%	1.4%	1.6%
Total assets*	28.9%	29.2%	29.3%	29.4%	29.9%	30.2%	31.1%	31.5%	31.2%	32.1%
Liabilities										
Current and accrued liabilities										
Accounts payable	4.6%	4.7%	4.7%	4.9%	4.9%	5.3%	5.1%	4.9%	5.2%	5.1%
Notes payable (within one year)	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%	1.7%	1.3%	1.5%	1.2%
Accrued expenses and other liabilities	1.5%	1.6%	1.5%	1.5%	1.6%	1.7%	1.7%	1.8%	1.7%	1.8%
Total current and accrued liabilities	7.7%	7.9%	7.8%	8.0%	8.0%	8.5%	8.5%	8.0%	8.4%	8.1%
Long-term liabilities										
Notes payable (later than one year)	4.2%	4.6%	4.1%	4.1%	3.7%	4.2%	4.0%	3.9%	3.8%	3.9%
Total liabilities	11.9%	12.5%	11.9%	12.1%	11.7%	12.7%	12.5%	11.9%	12.2%	12.0%
Net Worth	17.0%	16.7%	17.4%	17.3%	18.2%	17.5%	18.6%	19.6%	19.0%	20.1%
Total liabilities and net worth*	28.9%	29.2%	29.3%	29.4%	29.9%	30.2%	31.1%	31.5%	31.2%	32.1%
Net working capital	15.7%	15.9%	16.2%	16.3%	16.6%	16.5%	16.9%	17.8%	17.0%	18.0%
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Purchases	66.6%	67.0%	66.5%	66.2%	66.0%	66.0%	65.0%	64.7%	65.4%	64.9%
Net profit (before taxes)	3.5%	3.6%	3.6%	3.8%	3.7%	3.8%	4.0%	3.8%	3.9%	4.1%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Pharmacies generally show lower inventory levels as a percent of sales as the operation becomes older, which reflect the expertise in inventory control that management has gained with experience.

As pharmacies become successful and remain in operation more than five years, the net working capital rises both in dollars and in percentage of sales. It also shows substantial dollar increases as sales volume rises but declines as a percent of total sales.

Ten-year trends of balance sheet data, expressed as a percent of sales, are presented in Table 29. The overall decline in fixed assets indicates that pharmacies have not increased their investment in fixtures and equipment in relation to sales growth. This is probably due to the reduced profitability of the average operation and, therefore, to the decrease in retained earnings from which capital expenditures may be made. High interest rates for borrowed funds also contribute to the decision to delay capital investment. The overall decline in net worth and net working capital reflects a general downtrend in net income as a percent of sales over the decade.

Lilly Analysis Service Participants—One Year Later

Operating data of pharmacies submitting figures for both 1978 and 1979 are summarized in Table 30. The right-hand column shows statistics for pharmacies participating in the LILLY DIGEST for the first time.

Prescription sales volume is higher in the stores that supplied data for two consecutive years. Percentagewise, these pharmacies had a lower cost of goods sold and, therefore, a higher gross margin than the operations submitting only one year's figures. Total expenses as a percent of sales rose 0.1 percent for the two-year group, although net profit also increased by 0.1 percent to 3.3 percent of sales in 1979. Total income for the two-year stores decreased as a percent of sales, but both total income and net profit were higher, percentagewise, than those of the average operation (Table 1).

It appears from the operating statistics that the management of pharmacies presenting data for consecutive years implemented action to improve the units' operation. One reason for this may be that the process of reviewing the Lilly Analysis Service report often promotes an awareness and understanding of the operational elements of the business.

Table 30 *Summary of operating figures in pharmacies reporting two years and one year*

Averages per Pharmacy	801 Pharmacies Reporting Both Years: 1979	1978	Amount and Percent of Change	657 Pharmacies Reporting Only in 1979
Sales				
Prescription	$195,672— 51.6%	$177,692— 50.7%	+$17,980—10.1%	$194,535— 47.8%
Other	183,732— 48.4%	172,712— 49.3%	+$11,020— 6.4%	212,114— 52.2%
Total	$379,404—100.0%	$350,404—100.0%	+$29,000— 8.3%	$406,649—100.0%
Cost of goods sold	247,159— 65.1%	228,771— 65.3%	+$18,388— 8.0%	269,739— 66.3%
Gross margin	$132,245— 34.9%	$121,633— 34.7%	+$10,612— 8.7%	$136,910— 33.7%
Expenses				
Proprietor's or manager's salary	$ 25,614— 6.8%	$ 24,824— 7.1%	+$ 790— 3.2%	$ 25,019— 6.2%
Employees' wages	45,939— 12.1%	41,481— 11.8%	+$ 4,458—10.7%	47,759— 11.7%
Rent	9,326— 2.5%	8,831— 2.5%	+$ 495— 5.6%	10,340— 2.5%
Miscellaneous operating costs	39,148— 10.2%	35,094— 10.1%	+$ 4,054—11.6%	42,912— 10.6%
Total expenses	$120,027— 31.6%	$110,230— 31.5%	+$ 9,797— 8.9%	$126,030— 31.0%
Net profit (before taxes)	$ 12,218— 3.3%	$ 11,403— 3.2%	+$ 815— 7.1%	$ 10,880— 2.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 37,832— 10.1%	$ 36,227— 10.3%	+$ 1,605— 4.4%	$ 35,899— 8.9%
Number of prescriptions dispensed	26,839	26,576	+ 263— 1.0%	27,611
Prescription charge	$7.29	$6.69	+$ 0.60— 9.0%	$7.05

The Lilly Analysis Service

A pharmacy's financial statement reflects the strengths and weaknesses of management's policies. It is extremely important that the information found in these statements be properly interpreted and utilized. Pharmacy managements can more easily find problem areas and provide solutions by reviewing a pharmacy's financial figures on a regular basis. Such a methodical approach identifies problems early when they can be corrected easily, rather than waiting for them to become unwieldy and difficult to negotiate. This constant need for good information is at the heart of a well-managed business.

The Lilly Analysis Service is designed to support management's financial review. Operating data from any community pharmacy will be analyzed at no charge. The service is available to any pharmacist upon request, and all information is kept strictly confidential.

After a pharmacy's figures are received, they are audited and computerized. The printouts are then analyzed by staff experts, the comments are typed, and the completed reports are mailed directly to the designated addresses. Names need not be given as long as the address is adequate.

The object of the report is to identify areas that may present potential problems and, if appropriate, offer suggestions for improvement that may be considered. Operating areas that seem to be performing quite satisfactorily will also be identified. To receive a *free personal and confidential* analysis, contact the Lilly Analysis Service, Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.

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In Conclusion

Although total sales and prescription sales have increased in the average LILLY DIGEST pharmacy during 1979, the total income of the pharmacist-owner, while up in dollars, has decreased as a percentage of sales. The lower salary drawn by the pharmacist-owner may be part of an overall effort to control expenses and thereby preserve net profit. However, gross margin dropped substantially and could not be offset, with the result that net profit slipped to an all-time low of 3.0 percent of sales.

A review of some of the statistical business indices reveals the general price pressures retailers have faced in the overall operation of their businesses and partly explains the sharp decline in gross margin and net profit before taxes. A continued rapid rate of inflation necessitates action by retailers to devise means to accommodate product price increases quickly in order to prevent a negative impact on their operating statements.

That the prescription department is the cornerstone of the average community pharmacy operation continues to be evident by virtue of this department's contribution to total revenue. This feature also distinguishes it from any other retail business. Pharmacists must continue working to enhance the professional area of the business. But even this unique area is constantly challenged by third-party fixed-fee reimbursement schedules, government regulations, and rising costs and expenses. Therefore, the decade of the '80's requires even more vigilance than before. Pharmacy's rapidly changing environment makes it imperative for pharmacist-owners and managers to employ analytical skills in order to cope effectively with this ever-shifting business climate.

If you would like to have the Lilly Analysis Service analyze your financial information for 1980, just complete the participation form that will be **mailed to you early in January of 1981.** If you would like an immediate analysis of your present financial information, participation forms are available from Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.

If you wish to perform your own analysis, this work sheet will be useful . . . fill in and compare

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see page 23)	Notes (◆ or ●)
Net sales	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, and power	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Repairs	$	%	%	%	
Delivery	$	%	%	%	
Advertising	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Bad debts charged off	$	%	%	%	
Telephone	$	%	%	%	
Miscellaneous	$	%	%	%	
Total expenses	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 46-51)	Notes (◆ or ●)
Current assets	$	%	%	%	
Fixed assets	$	%	%	%	
Total assets	$	%	%	%	
Current liabilities	$	%	%	%	
Long-term liabilities	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 23 and 46-51)	Notes (◆ or ●)
Inventory turnover	times	times	times	
Prescription sales prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets current liabilities	times	times	times	
Net sales net working capital	times	times	times	
Long-term liabilities net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit net worth	%	%	%	